AUDITOR GENERAL'S OFFICE
PAPUA NEW GUINEA

PAPUA NEW GUINEA

Report of the Auditor-General 2016

Part IV

- Public Bodies and their Subsidiaries
- National Government Owned Companies
- National Government Shareholding in other companies

AUDITING FOR IMPACT

Part IV
Report of the Auditor-General
2016

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

Auditor-General's Office of Papua New Guinea

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PAPUA NEW GUINEA

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11 August 2017

The Honourable Job Pomat, 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 11th August 2017 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 Report contains information on the status of certain entities whose audits have been in arrears.

Yours sincerely,

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2016 AUDITOR-GENERAL'S REPORT – PART IV

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GENERAL

A. FOREWORD

My Annual Report to the National Parliament for the 2016 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 audits 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 Nation 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 31 December preceding, 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 me 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 Financial Reporting Standards (IFRS) 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 2016 to June 2017 (2016/2017 Audit Cycle). The Report covers the audits of these entities' financial statements for a number of years, not just 2016.

In **2016** there were **104 public entities** subject to audit by my Office, consisting of **78 Public Bodies and their Subsidiaries** and **26 National Government Owned Companies**.

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 private company auditors. These are reported under **Section C** of this Report.

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, organising, directing, monitoring 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 citizens 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, **60 entities** had not submitted their **2016 financial statements** to be audited and overall some **70 financial statements for 2015** 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 2016 (END OF 2016/2017 CYCLE)

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Total 2016/2017	Total 2015/2016
2016	20	4	15	5	60	**104**	**-**
2015	21	11	15	6	31	**84**	**99**
2014	25	6	4	3	22	**60**	**79**
2013	20	3	3	1	10	**37**	**60**
2012	8	1	2		5	**16**	**34**
2011	5				1	**6**	**14**
2010	1				1	**2**	**5**
2009	1					**1**	**2**
2008	1					**1**	**1**
2007	1					**1**	**1**
2006	1					**1**	**1**
2005	1					**1**	**1**
Total	**105**	**25**	**39**	**15**	**130**	**314**	**297**

Table A also shows that **169 audits** were either completed, substantially completed or still in progress as at 30 June 2017.

The details are graphically depicted in **Attachment 'C'**, which also included the arrears of prior years. **Table A** also shows that of the **105 audits completed**, only **20 were for the current year (2016)**, with **19 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 2016 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, **105 audit reports were issued**. Of the **105 audit reports issued, 30 were unqualified, 32 were qualified, 43 were Disclaimer Opinions.** The details are captured in Attachment 'D'.

Of the **30 unqualified opinions issued**, **13** related to prior years and only **17** were for 2016 as follows:

1. *Bank of Papua New Guinea;*
2. *Independence Fellowship Trust;*
3. *Independent Consumer and Competition Commission;*
4. *Investment Promotion Authority;*
5. *Kokonas Indastri Koporesen;*
6. *Papua New Guinea Coconut Extension Fund;*
7. *Papua New Guinea Coconut Research Fund;*
8. *National Agricultural Research Institute;*
9. *National Maritime Safety Authority;*
10. *Pacific Games (2015) Authority;*
11. *Kumul Petroleum Holdings Limited;*
12. *Eda Oil Limited;*
13. *Kumul LNG Limited;*
14. *Kumul Petroleum (Development) Limited;*
15. *Kumul Petroleum (Investments) Limited;*
16. *Kumul Petroleum (Kroton) Limited; and*
17. *Kumul Petroleum (Pipeline) 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.

Three of the qualified opinions related to 2016 and others were for prior years. The high number of Disclaimer of 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 2016 to June 2017 are provided in **Attachment 'D'**.

Types of Audit Opinions issued for each entity over the period of five years from 2012 to 2016 are detailed in **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 most 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 **104 public entities** only **44** entities have submitted their financial statements for 2016 **(Refer Schedule A (i), (ii), (iii) & (iv)** for my audit and inspection up to the time of preparing this Report. A total of **60** entities have failed to comply with these provisions **(Refer Schedule A (v))**. The public entities referred to above exclude the **4 Companies** with minority Government shareholdings.

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.

During the cycle, **30** entities have audits in arrears totally up to **70**. Details of audits that have gone into arrears due to non-submission of financial statements from 2015 or earlier are given below in **Table B** and **Schedule 'C'**.

Table B

Financial Statements Not Submitted

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3A	Papua New Guinea Maritime Transport Limited	2013 - 2015	3
2	A	5	Climate Change and Development Authority	2013 - 2015	3
3	A	8	Coffee Industry Corporation Limited	2014 & 2015	2
4	A	8A	Coffee Industry Fund	2014 & 2015	2
5	A	8B	Patana No.61 Limited	2014 & 2015	2
6	A	21	National AIDS Council Secretariat	2015	1
7	A	22	National Broadcasting Corporation	2015	1
8	A	23A	National Capital District Botanical Enterprises Limited	2013 - 2015	3
9	A	23B	Port Moresby City Development Enterprises Limited	2013 - 2015	3
10	A	24	National Cultural Commission	2014 & 2015	2
11	A	28	National Housing Corporation	2014 & 2015	2
12	A	31	National Museum and Art Gallery	2015	1
13	A	32	National Narcotics Bureau	2013 - 2015	3
14	A	39	Oil Palm Industry Corporation	2012 - 2015	4
15	A	43	Papua New Guinea Customs Service	2014 & 2015	2
16	A	44	Papua New Guinea Forest Authority	2015	1
17	A	47	Papua New Guinea Institute of Public Administration	2014 & 2015	2
18	A	48	Papua New Guinea Maritime College	2015	1
19	A	50	Papua New Guinea Sports Foundation	2014 & 2015	2
20	A	51A	National Analytical and Testing Services Limited	2014 & 2015	2
21	A	51B	Unitech Development and Consultancy Company Limited	2014 & 2015	2
22	A	53	Public Curator of Papua New Guinea	2014 & 2015	2
23	A	54	Security Industries Authority	2015	1
24	A	57A	Unigor Consultancy Limited	2014 & 2015	2
25	A	58	University of Natural Resources and Environment (Vudal)	2015	1

No.	Section	Para.	Entity	Year	No. of Audits
26	A	59	University of Papua New Guinea	2015	1
27	A	59A	Unisave Limited	2012 - 2015	4
28	A	59B	Univentures Limited	2012 - 2015	4
29	B	67A	Airport City Development Limited	2012 - 2015	4
30	B	64	Livestock Development Corporation Limited	2010 - 2015	6
					70

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:

- Issuance of 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 visited various entities and held meetings 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 that Act; and
- Senior officers of the Division attended various audit committee meetings during the cycle and emphasised the importance of bringing 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;*
  - *University of Goroka;*
  - *Internal Revenue Commission; and*
  - *PNG Customs.*

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:

- *Kumul Minerals Holding Limited (formerly Petromin Limited);*
- *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 manner 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 Board members allowances without 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 of Opinion in respect of many of the reports issued during the year, as shown in **Attachment 'D(iii)'**.

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 performed 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

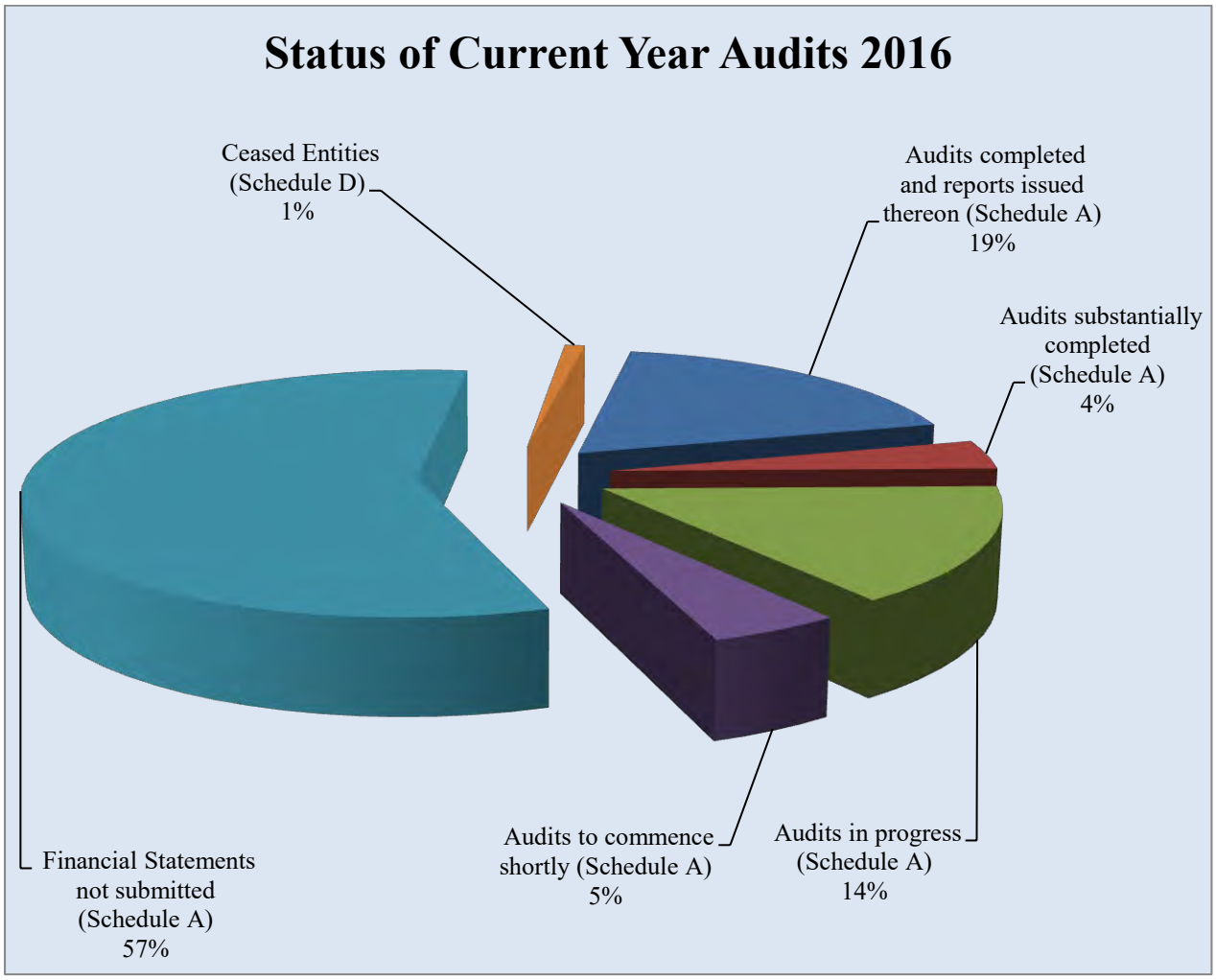
This Report is structured as follows:

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 (Audits in Arrears).

ATTACHMENT 'A'

STATUS OF CURRENT YEAR AUDITS 2016

No.	Status of Current Year Audits	Number of Entities	
		2016/2017	2015/2016
1	Audits completed and reports issued thereon (Schedule A)	20	16
2	Audits substantially completed (Schedule A)	4	5
3	Audits in progress (Schedule A)	15	18
4	Audits to commence shortly (Schedule A)	5	2
5	Financial Statements not submitted (Schedule A)	60	58
6	Ceased Entities (Schedule D)	1	0
		105	**99**

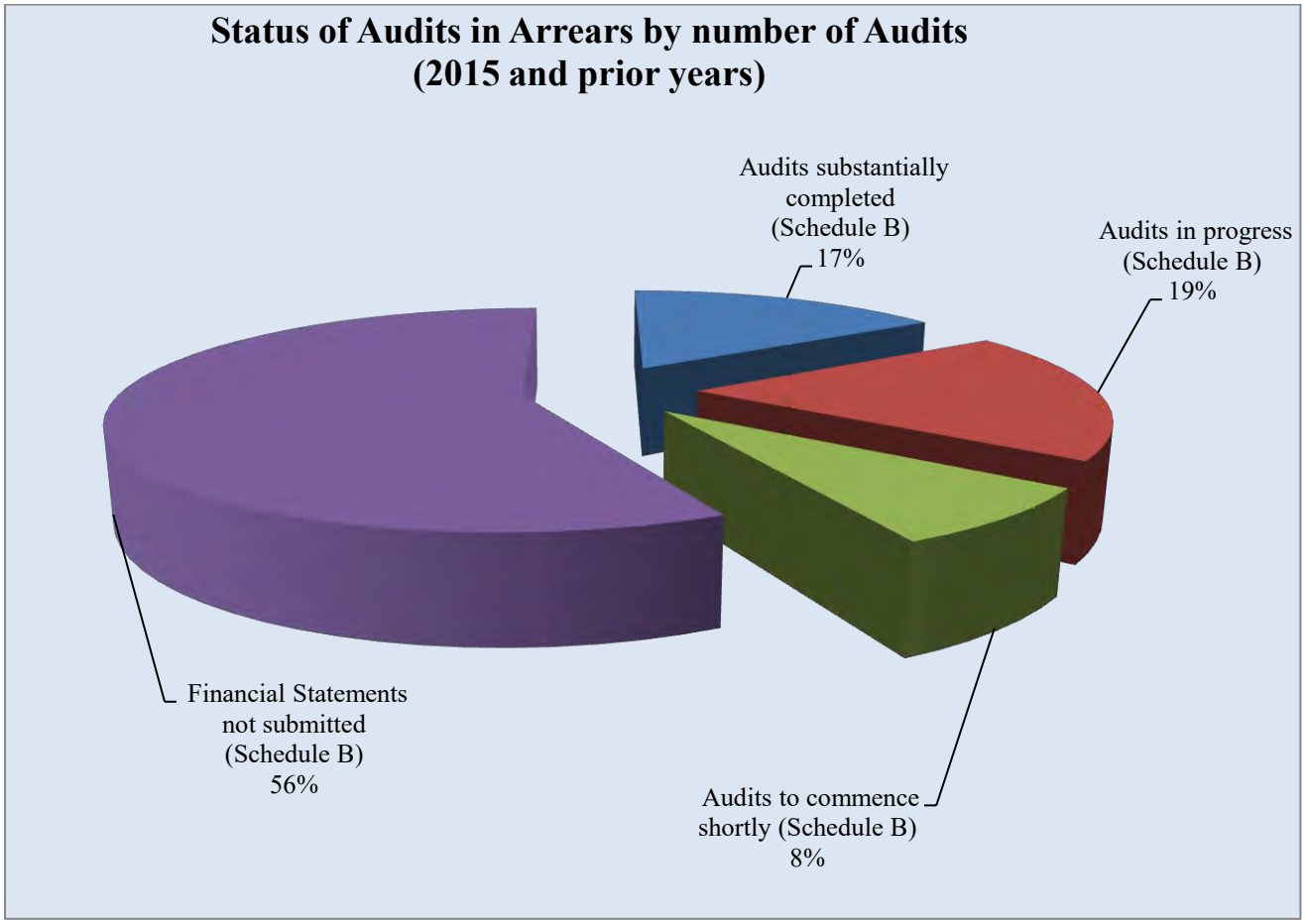


Please refer to details in Schedule 'A' on Pages 404 to 406.

ATTACHMENT 'B'

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2015 AND PRIOR YEARS)

No.	Status of Audits in Arrears by No. of Audits (2015 & prior years)	Number of Audits	
		2016/2017	2015/2016
1	Audits substantially completed (Schedule B)	21	32
2	Audits in progress (Schedule B)	24	31
3	Audits to commence shortly (Schedule B)	10	5
4	Financial Statements not submitted (Schedule B)	70	58
		125	**126**

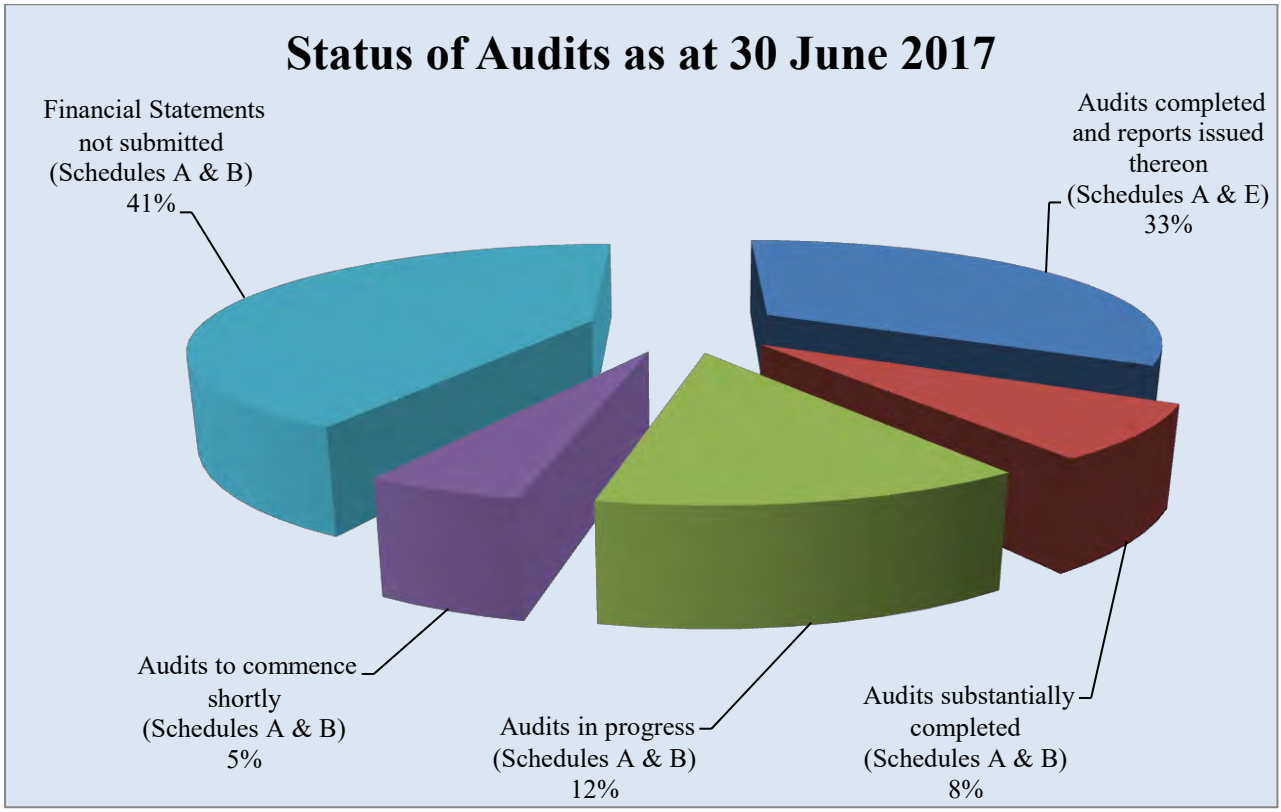


Please refer to details in Schedule 'B' on Pages 407 to 408.

ATTACHMENT 'C'

STATUS OF AUDITS AS AT 30 JUNE 2017

No.	Status of Audits	Number of Audits	
		2016/2017	2015/2016
1	Audits completed and reports issued thereon (Schedules A & E)	105	88
2	Audits substantially completed (Schedules A & B)	25	37
3	Audits in progress (Schedules A & B)	39	49
4	Audits to commence shortly (Schedules A & B)	15	7
5	Financial Statements not submitted (Schedules A & B)	130	116
		314	**297**



Please refer to details in Schedules 'A', 'B' and 'E' on Pages 404 to 408 and 412 to 414 respectively.

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	2015 & 2016	2
2	A	6A	Cocoa Pod Borer Project Fund	2015	1
3	A	6B	Cocoa Stabilisation Fund	2015	1
4	A	10	Independence Fellowship Trust	2016	1
5	A	11	Independent Consumer and Competition Commission	2016	1
6	A	14	Investment Promotion Authority	2016	1
7	A	15	Kokonas Indastri Koporesen	2016	1
8	A	15A	Papua New Guinea Coconut Extension Fund	2016	1
9	A	15B	Papua New Guinea Coconut Research Fund	2016	1
10	A	20	National Agricultural Research Institute	2016	1
11	A	30	National Maritime Safety Authority	2015 & 2016	2
12	A	34	National Road Safety Council	2015	1
13	A	35	National Roads Authority	2015	1
14	A	40	Ombudsman Commission of Papua New Guinea	2015	1
15	A	41	Pacific Games (2015) Authority	2016	1
16	A	42	Papua New Guinea Accident Investigation Commission	2011 & 2012	2
17	A	52	Parliamentary Members' Retirement Benefits Fund	2015	1
18	A	56	Tourism Promotion Authority	2015	1
19	B	63	Kumul Petroleum Holdings Limited	2016	1
20	B	63A	Eda Oil Limited	2016	1
21	B	63B	Kumul LNG Limited	2016	1
22	B	63C	Kumul Petroleum (Development) Limited	2016	1
23	B	63D	Kumul Petroleum (Investments) Limited	2016	1
24	B	63E	Kumul Petroleum (Kroton) Limited	2016	1
25	B	63F	Kumul Petroleum (Pipeline) Limited	2016	1
26	B	69	Papua New Guinea Ports Corporation Limited	2015	1
27	B	71	PNG DataCo Limited	2014	1
					30

(ii) QUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	6	Cocoa Board of Papua New Guinea	2015	1
2	A	10	Independence Fellowship Trust	2015	1
3	A	12	Industrial Centres Development Corporation	2014 & 2015	2
4	A	16A	General Business Trust	2014	1
5	A	18	Mineral Resources Authority	2012 & 2013	2
6	A	19	National Agriculture Quarantine and Inspection Authority	2015	1
7	A	25	National Economic and Fiscal Commission	2016	1
8	A	26	National Fisheries Authority	2014	1
9	A	33	National Research Institute	2016	1
10	A	36	National Training Council	2015	1
11	A	37	National Volunteer Service	2016	1
12	A	39	Oil Palm Industry Corporation	2011	1
13	A	40	Ombudsman Commission of Papua New Guinea	2014	1
14	A	41	Pacific Games (2015) Authority	2014 & 2015	2
15	A	47	Papua New Guinea Institute of Public Administration	2012 & 2013	2
16	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2014 & 2015	2
17	A	51	Papua New Guinea University of Technology	2013 & 2014	2
18	A	54	Security Industries Authority	2012 - 2014	3
19	A	59	University of Papua New Guinea	2013	1
20	B	62	Air Niugini Limited	2014	1
21	B	66	Motor Vehicles Insurance Limited	2015	1
22	B	67	National Airports Corporation Limited	2011	1
23	B	70	PNG Air Services Limited	2015	1
24	B	74	Telikom (PNG) Limited	2014	1
					32

(iii) DISCLAIMED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2013	1
2	A	5	Climate Change and Development Authority	2012	1
3	A	7	Cocoa Coconut Institute Limited of Papua New Guinea	2013	1
4	A	8	Coffee Industry Corporation Limited	2013	1
5	A	8A	Coffee Industry Fund	2013	1
6	A	8B	Patana No.61 Limited	2013	1
7	A	9	Government Printing Office	2013 & 2014	2
8	A	16B	PNG Dams Limited	2013 & 2014	2
9	A	16C	Port Moresby Private Hospital Limited	2013 & 2014	2
10	A	21	National AIDS Council Secretariat	2013 & 2014	2
11	A	22	National Broadcasting Corporation	2014	1
12	A	23	National Capital District Commission	2013	1

No.	Section	Para. No.	Entity	Year	No. of Audits
13	A	24	National Cultural Commission	2013	1
14	A	28	National Housing Corporation	2011 - 2013	3
15	A	29	National Information and Communication Technology Authority (NICTA)	2013 & 2014	2
16	A	31	National Museum and Art Gallery	2014	1
17	A	45	Papua New Guinea Immigration and Citizenship Service Authority	2014 & 2015	2
18	A	46	Papua New Guinea Institute of Medical Research	2014	1
19	A	48	Papua New Guinea Maritime College	2014	1
20	A	50	Papua New Guinea Sports Foundation	2005 - 2013	9
21	A	57	University of Goroka	2014	1
22	A	58	University of Natural Resources and Environment (Vudal)	2014	1
23	A	60	Water PNG	2014	1
24	B	65	Mineral Resources Development Company Limited	2012 - 2014	3
25	B	72	PNG Power Limited	2015	1
					43
					105

(iv) INTERNAL CONTROL REVIEW

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	13	Internal Revenue Commission	2014	1
					106

ATTACHMENT 'E'

COMPARATIVE AUDIT OPINIONS ISSUED (2012–2016)

No.	Section	Para. No.	Entity	Comparative Years				
				2016	2015	2014	2013	2012
1	A	2	Bank of Papua New Guinea	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
2	A	3	Border Development Authority				Disclaimer	Qualified
3	A	3A	Papua New Guinea Maritime Transport Limited					Qualified
4	A	4	Civil Aviation Safety Authority of Papua New Guinea		Qualified	Qualified	Qualified	Qualified
5	A	5	Climate Change and Development Authority					Disclaimer
6	A	6	Cocoa Board of Papua New Guinea		Qualified	Qualified	Qualified	Qualified
8	A	6A	Cocoa Pod Borer Project Fund		Unqualified	Unqualified	Unqualified	Unqualified
7	A	6B	Cocoa Stabilisation Fund		Unqualified	Unqualified	Unqualified	Qualified
9	A	7	Cocoa Coconut Institute Limited of Papua New Guinea				Disclaimer	Disclaimer
10	A	8	Coffee Industry Corporation Limited				Disclaimer	Qualified
11	A	8A	Coffee Industry Fund				Disclaimer	Qualified
12	A	8B	Patana No.61 Limited				Disclaimer	Qualified
13	A	9	Government Printing Office			Disclaimer	Disclaimer	Disclaimer
14	A	10	Independence Fellowship Trust	Unqualified	Qualified	Qualified	Unqualified	Unqualified
15	A	11	Independent Consumer and Competition Commission	Unqualified	Qualified	Qualified	Unqualified	Qualified
16	A	12	Industrial Centres Development Corporation		Qualified	Qualified	Qualified	Qualified
17	A	13	Internal Revenue Commission	New Inclusion				
18	A	14	Investment Promotion Authority	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
19	A	15	Kokonas Indastri Koporesen	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
20	A	15A	Papua New Guinea Coconut Extension Fund	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
21	A	15B	Papua New Guinea Coconut Research Fund	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
22	A	16	Kumul Consolidated Holdings			Unqualified	Unqualified	Qualified
23	A	16A	General Business Trust			Qualified	Disclaimer	Qualified
24	A	16B	PNG Dams Limited			Disclaimer	Disclaimer	Disclaimer
25	A	16C	Port Moresby Private Hospital Limited			Disclaimer	Disclaimer	Qualified
26	A	17	Legal Training Institute				Qualified	Qualified
27	A	18	Mineral Resources Authority				Qualified	Qualified
28	A	19	National Agriculture Quarantine and Inspection Authority		Qualified	Qualified	Qualified	Qualified
29	A	20	National Agricultural Research Institute	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
30	A	21	National AIDS Council Secretariat			Disclaimer	Disclaimer	Disclaimer
31	A	22	National Broadcasting Corporation			Disclaimer	Disclaimer	Disclaimer
32	A	23	National Capital District Commission				Disclaimer	Disclaimer
33	A	23A	National Capital District Botanical Enterprises Limited					Disclaimer
34	A	23B	Port Moresby City Development Enterprises Ltd					Disclaimer
35	A	23C	Port Moresby Nature Park Limited				Qualified	Qualified
36	A	24	National Cultural Commission				Disclaimer	Disclaimer
37	A	25	National Economic and Fiscal Commission	Qualified	Qualified	Qualified	Qualified	Qualified
38	A	26	National Fisheries Authority			Qualified	Qualified	Qualified
39	A	27	National Gaming Control Board			Qualified	Qualified	Qualified
40	A	27A	National Gaming Control Board Community Benefit Fund Trust			Qualified	Qualified	
41	A	28	National Housing Corporation				Disclaimer	Disclaimer
42	A	29	National Information and Communication Technology Authority (NICTA)			Disclaimer	Disclaimer	Disclaimer
43	A	30	National Maritime Safety Authority	Unqualified	Unqualified	Qualified	Qualified	Qualified

No.	Section	Para. No.	Entity	Comparative Years				
				2016	2015	2014	2013	2012
44	A	31	National Museum and Art Gallery			Disclaimer	Disclaimer	Disclaimer
45	A	32	National Narcotics Bureau					Disclaimer
46	A	33	National Research Institute	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
47	A	34	National Road Safety Council		Unqualified	Unqualified	Unqualified	Qualified
48	A	35	National Roads Authority		Unqualified	Qualified	Qualified	Qualified
49	A	36	National Training Council		Qualified	Qualified	Qualified	Qualified
50	A	37	National Volunteer Service	Qualified	Qualified	Qualified	Qualified	Qualified
51	A	38	National Youth Commission					
52	A	39	Oil Palm Industry Corporation					
53	A	40	Ombudsman Commission of Papua New Guinea		Unqualified	Qualified	Unqualified	Unqualified
54	A	41	Pacific Games (2015) Authority		Qualified	Qualified	Qualified	Qualified
55	A	42	Papua New Guinea Accident Investigation Commission					Unqualified
56	A	43	Papua New Guinea Customs Service	New Inclusion				
57	A	44	Papua New Guinea Forest Authority					Disclaimer
58	A	45	Papua New Guinea Immigration and Citizenship Service Authority		Disclaimer	Disclaimer	Qualified	Qualified
59	A	46	Papua New Guinea Institute of Medical Research			Disclaimer	Disclaimer	Disclaimer
60	A	47	Papua New Guinea Institute of Public Administration				Qualified	Qualified
61	A	48	Papua New Guinea Maritime College			Disclaimer	Disclaimer	Qualified
62	A	49	Papua New Guinea National Institute of Standards and Industrial Technology		Qualified	Qualified	Qualified	Qualified
63	A	50	Papua New Guinea Sports Foundation				Disclaimer	Disclaimer
64	A	51	Papua New Guinea University of Technology			Qualified	Qualified	Disclaimer
65	A	51A	National Analytical and Testing Services Limited					
66	A	51B	Unitech Development and Consultancy Company Limited				Adverse	Qualified
67	A	52	Parliamentary Members' Retirement Benefits Fund		Unqualified	Unqualified	Unqualified	Unqualified
68	A	53	Public Curator of Papua New Guinea					Disclaimer
69	A	54	Security Industries Authority			Qualified	Qualified	Qualified
70	A	55	Small Business Development Corporation					Qualified
71	A	56	Tourism Promotion Authority		Unqualified	Unqualified	Unqualified	Unqualified
72	A	57	University of Goroka			Disclaimer	Disclaimer	Disclaimer
73	A	57A	Unigor Consultancy Limited				Disclaimer	Disclaimer
74	A	58	University of Natural Resources and Environment (Vudal)			Disclaimer	Qualified	Qualified
75	A	59	University of Papua New Guinea				Qualified	Disclaimer
76	A	59A	Unisave Limited					
77	A	59B	Univentures Limited					
78	A	60	Water PNG			Disclaimer	Disclaimer	Disclaimer
79	B	62	Air Niugini Limited			Qualified	Qualified	Qualified
80	B	62A	Link-PNG Limited	New Inclusion				
81	B	63	Kumul Petroleum Holdings Limited	Unqualified	Unqualified	Unqualified		
82	B	63A	Eda Oil Limited	Unqualified				
83	B	63B	Kumul LNG Limited	Unqualified	Unqualified	Unqualified		
84	B	63C	Kumul Petroleum (Development) Limited	Unqualified	Unqualified	Unqualified		
85	B	63D	Kumul Petroleum (Investments) Limited	Unqualified	Unqualified	Unqualified		
86	B	63E	Kumul Petroleum (Kroton) Limited	Unqualified				
87	B	63F	Kumul Petroleum (Pipeline) Limited	Unqualified				
88	B	63G	Kumul Petroleum (Tech and Advisory) Limited		Unqualified			
89	B	64	Livestock Development Corporation Limited					

No.	Section	Para. No.	Entity	Comparative Years				
				2016	2015	2014	2013	2012
90	B	65	Mineral Resources Development Company Limited			Disclaimer	Disclaimer	Disclaimer
91	B	66	Motor Vehicles Insurance Limited		Qualified	Qualified	Qualified	Qualified
92	B	67	National Airports Corporation Limited					
93	B	67A	Airport City Development Limited					
94	B	68	NCD Water and Sewerage Limited (Eda Ranu)			Qualified	Qualified	Qualified
95	B	69	Papua New Guinea Ports Corporation Limited		Unqualified	Qualified	Qualified	Qualified
96	B	70	PNG Air Services Limited		Qualified	Qualified	Qualified	Qualified
97	B	71	PNG DataCo Limited			Unqualified		
98	B	72	PNG Power Limited		Disclaimer	Disclaimer	Disclaimer	Disclaimer
99	B	73	Post (PNG) Limited		Unqualified	Unqualified	Unqualified	Unqualified
100	B	74	Telikom (PNG) Limited			Qualified	Qualified	Qualified
101	B	74A	Datec (PNG) Limited			Unqualified		
102	B	74B	Kalang Advertising Limited				Unqualified	Qualified
103	B	74C	Media Niugini Limited (EMTV)	New Inclusion				
104	B	74D	PNG Directories Limited			Unqualified	Unqualified	Unqualified

ATTACHMENT 'F'

AUDITS IN ARREARS (2015 AND PRIOR YEARS) COMPLETED DURING 2016/2017 AUDIT CYCLE

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
1	A	2	Bank of Papua New Guinea	2015	1		
2	A	3	Border Development Authority	2013	1	2014	1
3	A	5	Climate Change and Development Authority	2012	1		
4	A	6	Cocoa Board of Papua New Guinea	2015	1		
5	A	6A	Cocoa Pod Borer Project Fund	2015	1		
6	A	6B	Cocoa Stabilisation Fund	2015	1		
7	A	7	Cocoa Coconut Institute Limited of Papua New Guinea	2013	1		
8	A	8	Coffee Industry Corporation Limited	2013	1		
9	A	8A	Coffee Industry Fund	2013	1		
10	A	8B	Patana No.61 Limited	2013	1		
11	A	9	Government Printing Office	2013 & 2014	2		
12	A	10	Independence Fellowship Trust	2015	1		
13	A	12	Industrial Centres Development Corporation	2014 & 2015	2		
14	A	16	Kumul Consolidated Holdings			2015	1
15	A	16A	General Business Trust	2014	1		
16	A	16B	PNG Dams Limited	2013 & 2014	2	2015	1
17	A	16C	Port Moresby Private Hospital Limited	2013 & 2014	2	2015	1
18	A	17	Legal Training Institute			2014 - 2016	3
19	A	18	Mineral Resources Authority	2012 & 2013	2	2014	1
20	A	19	National Agriculture Quarantine and Inspection Authority	2015	1		
21	A	21	National AIDS Council Secretariat	2013 & 2014	2		
22	A	22	National Broadcasting Corporation	2014	1		
23	A	23	National Capital District Commission	2013	1	2014	1
24	A	24	National Cultural Commission	2013	1		
25	A	26	National Fisheries Authority	2014	1		
26	A	27	National Gaming Control Board			2015	1
27	A	27A	National Gaming Control Board Community Benefit Fund Trust			2015	1
28	A	28	National Housing Corporation	2011 - 2013	3		
29	A	29	National Information and Communication Technology Authority (NICTA)	2013 & 2014	2		
30	A	30	National Maritime Safety Authority	2015	1		
31	A	31	National Museum and Art Gallery	2014	1		
32	A	34	National Road Safety Council	2015	1		
33	A	35	National Roads Authority	2015	1		
34	A	36	National Training Council	2015	1		
35	A	38	National Youth Commission			2012 & 2013	2
36	A	39	Oil Palm Industry Corporation	2011	1		
37	A	40	Ombudsman Commission of Papua New Guinea	2014 & 2015	2		
38	A	41	Pacific Games (2015) Authority	2014 & 2015	2		

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
39	A	42	Papua New Guinea Accident Investigation Commission	2011 & 2012	2		
40	A	45	Papua New Guinea Immigration and Citizenship Service Authority	2014 & 2015	2		
41	A	46	Papua New Guinea Institute of Medical Research	2014	1		
42	A	47	Papua New Guinea Institute of Public Administration	2012 & 2013	2		
43	A	48	Papua New Guinea Maritime College	2014	1		
44	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2014 & 2015	2		
45	A	50	Papua New Guinea Sports Foundation	2005 - 2013	9		
46	A	51	Papua New Guinea University of Technology	2013 & 2014	2		
47	A	52	Parliamentary Members' Retirement Benefits Fund	2015	1		
48	A	53	Public Curator of Papua New Guinea			2013	1
49	A	54	Security Industries Authority	2012 - 2014	3		
50	A	55	Small Business Development Corporation			2013 - 2015	3
51	A	56	Tourism Promotion Authority	2015	1	2016	1
52	A	57	University of Goroka	2014	1	2015	1
53	A	58	University of Natural Resources and Environment (Vudal)	2014	1		
54	A	59	University of Papua New Guinea	2013	1		
55	A	60	Water PNG	2014	1		
56	B	62	Air Niugini Limited	2014	1		
57	B	63G	Kumul Petroleum (Tech and Advisory) Limited			2016	1
58	B	65	Mineral Resources Development Company Limited	2012 - 2014	3		
59	B	66	Motor Vehicles Insurance Limited	2015	1		
60	B	67	National Airports Corporation Limited	2011	1		
61	B	69	Papua New Guinea Ports Corporation Limited	2015	1		
62	B	70	PNG Air Services Limited	2015	1		
63	B	71	PNG DataCo Limited	2014	1	2015	1
64	B	72	PNG Power Limited	2015	1		
65	B	73	Post (PNG) Limited			2016	1
66	B	74	Telikom (PNG) Limited	2014	1		
67	B	74A	DATEC (PNG) Limited			2015	1
68	B	74B	Kalang Advertising Limited			2014	1
					85		**24**

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 reports to the Ministers under *Section 8(4)* of the *Audit Act*, on the financial statements of the Bank for the years ended 31 December 2015 and 2016 were issued on 30 June 2016 and 30 June 2017 respectively. The reports did not contain any qualification.

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 2013 was issued on 28 November 2016. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Cash at Bank – K457,257

I noted that during 2013, the Authority maintained four (4) bank accounts and a fixed term deposit account. My review of the accounts' bank reconciliations and their related records revealed the following;

- My review of the general ledgers, cash book and their reconciliations revealed a total cash balance of K2,308,311.85. This balance was reduced by K1,842,839 for its subsidiary (PNG MTL) to K465,472.85 whilst the financial statement showed a balance of K457,257 resulting in a difference of K8,315.85.

- Bank reconciliations for three (3) bank accounts were not timely prepared and checked by senior competent officers of the Authority. In addition, the Staff Welfare bank account reconciliations were not provided for audit verification.

- The Project and Operational bank accounts' reconciliations contained stale cheques dating back to 2010 totaling K314,408.11 and K122,339.19 respectively. Furthermore, outstanding deposits totaling K398,126.57 were not timely cleared in the respective bank reconciliations.

As such, I was unable to determine the accuracy of the bank balances and their aggregate closing balance of K457,257 disclosed as at 31 December 2013.

Term Deposits – K7,905,286

During my review, I noted that the Authority had invested surplus project funds in an Interest Bearing Deposit (IBD) account. My review of the related records revealed that relevant ledger accounts and an investment register were not maintained and updated accordingly for investments, at maturity, roll over and cut-off periods. Further, the IBD Certificates from Kina Finance showed two (2) investments with a total principal value of K6,019,000 at balance date that were matured in 2014 while its related ledger disclosed K7,905,000. I was not provided with any valid explanation for this variance. As such, I was unable to satisfy myself on the accuracy and existence of the investment balance disclosed in the financial statements totaling K7,905,286 at year end.

Fixed Assets – K20,243,684

I noted that the Authority disclosed K20,243,684 as its fixed assets balance as at 31 December 2013. My examination of the available related records revealed that K13,512,435 (67 percent) of this total comprised of the seven (7) ships owned by the Authority. Of this seven (7) ships, I noted that only two (2) were operating and engaged in coastal trade during the year while the remaining five (5) on most occasions were on slipways around the country awaiting maintenance and National Maritime Safety Authority clearance for sea worthiness due to ships being built using substandard materials resulting in high maintenance and operational costs. Consequently, these conditions necessitated the requirement for the ships to be revalued by an independent marine valuer to determine their fair values against their written down values, but the valuations of these ships had not been carried out by the Authority during the year. As such, I was unable to determine the completeness, accuracy and valuation of the fixed assets balance disclosed at year end.

Sundry Debtors and Prepayments – K8,778,169

I noted that the Authority's year-end balance for Sundry Debtors and Prepayments disclosed in the financial statements was K8,778,169. My review of the related records revealed that this total comprised of eight (8) different accounts with varying balances in their respective general ledgers as compared to the financial statement balances.

Of the total, about K6,000,000 was owed by its subsidiary company (PNGMTL) which was not financially sound. As such, a provision needs to be made against this debt. In addition, the movements or transactions during the year in each account were not clearly recorded in the general ledger resulting in an ending balance of K8,778,169. As such, I was unable to conclude on the accuracy and existence of the above closing balance disclosed as at 31 December 2013.

Creditors and Accruals – K4,284,738

The Authority had disclosed K4,284,738 for Creditors and Accruals in the financial statements at year end. My review of the account revealed that the balance comprised of the following accounts;

- **Other Creditors – K2,389,130**

  Other Creditors' balance of K2,389,130 was more than fifty percent (50%) of the total balance of K4,284,738. I noted that the balance was a carry-over figure from 2012 accounts without any movements during the year. I was not provided with any valid explanation supported by documents.

- **Other Provisions – K1,010,000**

  My review of the other provisions account revealed that the amount related to a provision made for audit fees as well as other special relocation projects in 2009. I was not provided with the summary of other provision costs along with their project status. As a result of limitation of scope, I was unable to perform the necessary audit procedures to verify the account balance. As such, I was unable to establish whether the other provision of K1,010,000 had been fairly stated in the accounts.

- **Other Payables – K746,640**

  My review of Other Payables revealed that K746,640 had been carried forward as opening balance from the 2012 financial year. There were no transactions posted in 2013. As such, I could not establish whether the Authority maintained adequate control over the payable and perform regular reconciliations to update its records.

Cashflow Statement

My examination of the Authority's Cashflow Statement revealed that the Cashflow Statement agreed to the cash at bank at year end. My review of the Cashflow Statement noted variances in the cashflows generated from operating activities. I was not provided with the workings of the Cashflow Statement by the Authority. As such, I was unable to state as to the accuracy of the movements in each account and the aggregate year end cash balance stated in the Cashflow Statement.

DISCLAIMER OF OPINION

Because of the significance of the matters referred to 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 Border Development Authority for the year ended 31 December 2013."

3.2.2 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 28 November 2016. The report contained the following comments:

1. Bank Reconciliation

My review of the Authority's bank reconciliations revealed that reconciliations were not prepared and independently reviewed by a responsible officer of the Authority on a timely basis. In my successive audit reports I highlighted this issue, but management failed to address this issue.

2. Granting of Approval Limits

As reported in my previous audit reports, 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 *Public Finances (Management) Act*. I emphasised that these higher approval limits up to K10 million was not consistent with the approval limits set by the *Public Finances (Management) Act 1995 (as amended)*.

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 *Public Finances (Management) Act 1995* and may open avenues for malpractices.

3. Condition of Ships

I noted that at the end of 2010, the Authority had taken delivery of all the seven (7) ships built and acquired from a ship builder in Indonesia. However, I noted with concern that the ships on most occasions were not operating as expected due to poor quality materials being used to build these ships.

I observed that in most occasions the ships were docked for maintenance at various ports and as a result, the Authority was incurring huge port docking charges.

4. Non-Acquittal of Travel Advances

My review of the travel expenses totaling K669,123 by staff on duty travel (domestic and overseas) 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, advances amounting to K109,414 remained outstanding or not acquitted at the year end.

I drew management's attention to the *Public Finances (Management) Act 1995* 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 (7) days for domestic travel and fourteen (14) days for overseas travel.

5. Non Compliance with the *Public Finances (Management) Act*

The Authority had not submitted its financial statements for the year ended 31 December 2013 before 31 March 2014 to enable me to conduct the audit and submit the audit report within the time frame prescribed by the *Public Finance (Management) Act 1995 (as amended)*. Consequently, the Authority had breached *Sections 63(2*) and *63(4*) of the *Public Finance (Management) Act 1995.*

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 2014 had been completed and the results were being evaluated.

The Authority had not submitted its financial statements for the years ended 31 December 2015 and 2016 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 Company, despite numerous reminders, had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015 and 2016 for my inspection and audit.

4. CIVIL AVIATION SAFETY AUTHORITY OF PAPUA NEW GUINEA

4.1 INTRODUCTION

4.1.1 Legislation

The Civil Aviation Safety Authority of Papua New Guinea was established on 1 January 2010 after the enactment of the *Civil Aviation Act 2000 (as amended).*

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 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 examination of the financial statements of the Authority for the year ended 31 December 2016 was in progress.

5. CLIMATE CHANGE AND DEVELOPMENT AUTHORITY (formerly Office of Climate Change and Development)

5.1 INTRODUCTION

5.1.1 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* which abolished the former Office of Climate Change and Environmental Sustainability (OCC&ES). The former OCC & ES was created in 2009 and operated 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 creation and establishment of *PNG Climate Change Authority (PNGCCA)*. However, SCMC in its meeting held on 22 May 2012 had withheld the submission of the organisational structure as the certified governing Act was 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, on 28 July 2015, the National Parliament passed the *Climate Change (Management) Act 2015 (No. 19 of 2015)* and certified by the Acting Speaker of the National Parliament on 20 November 2015. Finally, the Climate Change and Development Authority came into existence on that date.

5.1.2 Objectives of the Authority

The objectives of the Authority are 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*.

5.1.3 Functions of the Authority

Major functional responsibilities of the Authority 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 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.

5.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

5.2.1 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 2012 was issued on 25 July 2016. This report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Limitation on the Scope of my Audit

The Climate Change & Development Authority (CCDA) did not maintain proper, complete and accurate records of transactions for the year ended 31 December 2012. There were serious deficiencies in accounting and record keeping. As a result, I could not complete my planned audit procedures to satisfy myself with most of the expenditure account balances reported in the financial statements.

The Presentation of Financial Statements

Note 2(a) of the financial statements reported that the Authority's financial statements were prepared in accordance with accrual basis, whereas the income and expenditure was recognised on cash basis. Therefore, the financial statements was prepared in hybrid basis, which is not appropriate. As a result, the presentation of the financial statements was not complying with the *Public Finances (Management) Act 1995*.

Expenditure – K7,812,799

The Authority did not maintain proper record of payments totalled K4,557,402 which represented 60% of the total payments for the period under review. Consequently, I was unable to complete my audit procedures to determine the validity, completeness and accuracy of the payments totalled K7,812,799 as reported in the financial statements. Further, travel allowances valued K1,163,868 were not acquitted during the year.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I was not able to obtain sufficient and appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of the Authority for the year ended 31 December 2012."

5.2.2 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 25 July 2016. The report contained the following observations:

Management Information System (MIS)

The Authority had no effective Management Information System (MIS) to capture accounting data. When there were no effective MIS, accounting and management data could not be captured adequately. Currently, MYOB system had been used to produce the reports and stand-alone PC systems software had been used for recording management data and records. Proper and current version of the MYOB needed to be purchased and personnel need training to operate the system.

I brought this to the attention of the management and they responded that they would do it when their finance capacity increases.

Accounting Manual & Procedures

The Authority currently has no Accounting Manual & Procedures to assist accounting staff in the preparation of accounts. Having no accounting manual and procedures may lead accounting personnel to prepare and produce incorrect accounts.

I brought this to the attention of the management and they responded that they would do it in 2016 when their finance capacity increases.

Organization Policy

I noted that the Authority did not have an Organizational Policy. I informed management that in the absence of organizational policy, it is difficult to operate and manage the operations of the organization. The management advised that they would work on it in 2016.

Salary & Wages

The Salaries & wages of the personnel of the Authority were paid by the Department of Personnel Management (DPM) while gratuities were paid by the organization. I brought to the attention of the management the risk that salaries & wages payments could lead to duplication in either of the organizations. The management responded that they would liaise with the DPM on this issue starting in 2016.

Engagement of Consultants

I noted that consultants were engaged to review the Authority's organizational structure and review terms and conditions of employees. However, I could not confirm the outcome of the engagement. I recommended to management that the Authority must engage consultants who are qualified for the job and management responded that new management had done away with that and engaged only on need basis for very short terms.

Internal Audit Unit/Internal Auditor

The Authority had no Internal Audit Unit or Internal Auditor for the organisation. I recommended that internal controls including organizational policy and accounting manual and procedures must be established, and internal audit unit must exist to ensure operational processes comply with applicable rules, policies and laws. The management advised that they would consider this under the new CCDA restructures.

Meeting Minutes

During my review, the Authority could not provide me with the Minutes of the Management and Board Meetings for the year 2012. This implied that significant issues affecting the organization were not reviewed and this could lead to misconduct in public office. I brought this to the attention of the management and they advised that the new management had already put in controls for keeping records of meeting minutes.

Acquittal Systems – Travel Allowances and Advances

During my review, I noted that travel allowances and advances were not properly acquitted. I recommended to management that proper acquittal system and policy must be established to ensure public funds are not misused. I also suggested that an officer should be assigned with a duty to coordinate the acquittals for travel allowances and other advances including salary advances. The management responded that under the new management they already had the acquittal measures in place. The management also advised that they had put a stop to all cash advances and issue instructions for acquittals.

Excessive Hire Car

I noted that control was lacking on hiring of cars. In 2012 a total of K1,148,713 was spent on hire cars alone. I advised management that lacking control may lead to misuse of public funds. The management responded that the new management said no to hire cars and new measures were already in place.

Filing System – Record Keeping

There were no evidences of proper filing system in place to ensure documents were well kept for management record and audit purposes.

Budget & Management of Capital & Donor Funded Projects

I was not made available with the Budget estimates for Capital or Donor Funded Projects. Also, there was no proper management for capital project expenditures. I advised management that there must be a budget document to ensure that the capital projects or donor funded projects are controlled and managed within the budget. The management responded that the new management would do that starting in 2016.

Fixed Assets Register

The Authority did not maintain Fixed Assets Register (FAR) for the year under review. Fixed asset additions were not updated and the controls were lacking to monitor and safeguard their existence. I recommended the management to immediately maintain the FAR to ensure the assets are recorded. I advised that guidelines must be established to safeguard the assets and to ensure that the assets are properly managed and controlled.

I further recommended that fixed asset register must be properly reconciled to assets control ledger account to ensure accuracy of fixed assets valuation. The management responded that they would act on my recommendations.

Payment Register & Payment Vouchers

The Authority had not maintained payment register to record all the cheques issued to suppliers. I further noted that most of the payment vouchers examined were not supported by proper suppliers supporting documents as evidence of payment and service received. I brought this to the attention of the management and they responded that they would improve on this starting in 2016.

Compliance with Public Finances (Management) Act 1995

The audit of the 2012 statutory financial statements commenced in April 2016 which was after the deadline of 30 June 2013. As such, the Directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act 1995* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year.

5.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015 and 2016 for my inspection and audit despite my numerous reminders.

6. COCOA BOARD OF PAPUA NEW GUINEA

6.1 INTRODUCTION

6.1.1 Legislation

The Cocoa Board of Papua New Guinea was established under the provisions of the *Cocoa Act 1981*.

6.1.2 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.

6.1.3 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 7 of this Report.

6.1.4 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 paragraphs 6A and 6B 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**.

6.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

6.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Board for the year ended 30 September 2015 was issued on 15 June 2017. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Going Concern

I reported in my prior years' reports that the National Court in its ruling of 19 March 2010 awarded *Agmark Pacific Limited* K4,885,260 plus 8% interest and costs allegedly for collections of Stabilization Bounty illegally without the Minister's approval. Further, the Board's current Net Liability stands at K7,679,950. Should the appeal made in 2010 fail, the Board will not be able to pay the K4,885,260 based on its current financial position unless an agreement is reached with *Agmark Pacific Limited* to pay the award over a period of time, or the State agrees to bail out the Board by paying the award, otherwise the Board may be considered as insolvent and may be placed under receivership. I also noted that this contingent liability was not disclosed by way of notes to the financial statements for the year ended 30 September 2015. As a result, the Board has not complied with the requirements of *International Accounting Standards 37 (IAS 37)*.

Revaluation of Land and Buildings – K2,279,825

My review revealed that there was no proper valuation done on the Land and Buildings owned by the Board for a prolonged period to reflect the current market rates and values. As a result, the value of the fixed assets as at balance date was not fairly stated. Consequently, the Board has not complied with *IAS 16 (Measurement and Recognition)* which states that the valuation of property, plant and equipment should be done on a regular basis. As a result, the disclosed amount of K2,279,825 representing Land and Buildings was not fairly stated in the financial statements as at 30 September 2015.

QUALIFIED OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the Basis for Qualified Opinion paragraphs;

a) the financial statements of the Board 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 Board as at 30 September 2015 and the results of its financial operations and cash flows for the year then ended."

6.2.2 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 30 September 2015 was issued on 15 June 2017. The report contained the following comments:

Non-Compliance with the Public Finances (Management) Act

The Board had not submitted its financial statements for the year ended 30 September 2015 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the *Public Finances (Management) Act 1995 (as amended).* Consequently, the Board had breached *Sections 63(2)* and *63(4)* of the *Public Finances (Management) Act.* I brought this issue to the attention of the management and they responded as follows;

"We noted your comments and we'll ensure that in future the financial statements are prepared and submitted on a timely basis to comply with Sections 63(2) and 63(4) of the Public Finances (Management) Act."

Budget Review

My review and comparison of the 2015 budget figures against the actuals revealed non-compliance and deviations of material amounts**.** I highlighted to the Board that annual budgets were passed through the *Appropriation Act* and any deviations and overspending was direct breach of the concerned Act. A budget was one of the management tools that guide the entity in managing its resources for its maximum benefits. Therefore, deviations from budget were an indication of the inability of the management to manage its limited resources wisely. I recommended the Board to ensure proper compliance to the budget and any deviations be properly justified and approved by those in authority. I drew this to the management attention and the management responded as follows;

"We noted your comments on non-compliance and deviations in our budget against the actuals for the year under review. We also noted that any deviation and over spending is a direct breach of the Appropriation Act. We will ensure that proper compliance to budget is maintained and any deviation should be properly justified and approved by appropriate committees and authorities."

Cash at Bank

My review and the examination of the cash at bank and bank reconciliations revealed that the bank reconciliations were not prepared, reviewed and verified by concerned officers of the Board in 2015 on a timely basis. I also noted that stale cheques amounting to K21,756 were outstanding over 12 months.

I was not provided with subsequent months' bank reconciliations for my verification and further testing of unpresented cheques. As a result, I was not able to place reliance on the effectiveness of the controls maintained by the Board. I brought this issue to the attention of the management and they responded as follows;

"We take note of your comments in relation to bank reconciliations and stale cheques. We will ensure to prepare timely bank reconciliations including segregation of duties and the stale cheques should be investigated and written back to our book of accounts."

Fixed Assets

My review of the fixed assets of the Board revealed the following weaknesses:

- **Fixed Assets Register (FAR)**

  The Fixed Assets Register (FAR) was incomplete as it was not properly updated and had not fully captured all the assets owned by the Board. Two portions of land located within the township of Rabaul *(Section 61 lot 31 and Section 37 lot 102)* were recorded without proper valuation. In addition, the vehicle list provided for audit verification had twenty-one (21) vehicles while the FAR showed only sixteen (16). I further noted that additions and disposals of motor vehicle used in other Centres were not properly registered in the FAR. I recommended the management of the Board to do a full stock-take update and maintain the Fixed Assets Register. I drew this matter to the attention of the management of the Board and they responded as follows;

  "Management acknowledges the weaknesses highlighted in our Fixed Assets Register and advice that the FAR has now been updated."

- **Stock-Take**

  The Board had not conducted regular stock-take on its fixed assets for a number of years. Assets were not counted and tagged with asset numbers for verification and control. In the absence of regular fixed assets stock-take and numbering, assets that were idle, misplaced or stolen cannot be identified by the Board.

As a result, I was unable to place reliance on the effectiveness of the controls surrounding the management of fixed assets. Consequently, I was not able to comment on the condition, valuation and existence of the fixed assets disclosed. I brought this issue to the attention of the management and the management responded as follows;

"We take note of your recommendations and as stated above, the fixed assets update and maintenance has now been initiated by management to address this issue."

Cocoa Fermentary Central Database

During my review of income generated by the Board, I noted that the Board did not have a complete and central database of all the registered cocoa fermentaries in the country apart from the Registered Exporters, which was provided for my review. About eighteen percent (18%) of the total income disclosed during the year were generated from fermentary registrations and other related licenses. As a result, I was unable to ascertain the total number of registered fermentaries in the country, their status, location and other statistics and, whether all fermentaries were registered and fees collected accordingly in 2015. I recommended that a complete central database of all fermentaries and other related licenses are created and maintained by the Board. I drew this matter to the management and they responded to my query as follows;

"We take note of your comments and recommendations to establish a central fermentary database of all fermentaries and other related licenses. The management will ensure that these vital information are separately maintained and are consolidated into a central database for records, reporting and audit purposes."

Personnel Files

During my review, I noted poor maintenance of staff personnel files by the Board. There were no IRC tax declarations, birth certificates or statutory declarations to verify the dependents and no issuance of Pay Variation Advise to keep track of movement in the salaries and allowances. No history cards were also maintained by the Board for each staff. As a result, I was unable to confirm the salary and allowances and the leave records from their personnel files. I brought this issue to the attention of the management and they responded as follows;

"Your recommendations have been noted and Human Resources and Administration Section have taken necessary actions to ensure compliance with requirements that are in place to maintain and update staff personnel files."

Payments without three (3) Quotations and Public Tender

During my review, I noted that the Board had not complied with the requirements of the *Public Finances (Management) Act 1995 (PFMA), Section 61* and *Financial Instruction 2-2013* in relation to the following;

- The Board did not obtain three (3) written quotations for purchases valued between K5,000 and under K500,000. As a result, payments totaling K251,648 were made without obtaining three (3) written quotations.

- The Board during the financial period ended 30 September 2015 engaged a company for supply and installation of water projects for a total value of K585,200 without observing the Public Tendering processes.

I brought this issue to the management and received the following responses;

"We acknowledged your findings and recommendations will ensure to comply with the procurement processes by obtaining three quotations for payments of K5,000 and above. The Company was engaged to carry out the water projects in six (6) different locations without tender for it has already delivered quality work for PNGCCIL under cocoa nurseries program. With these back ground and quality of work and to maintain consistency and continuity with the scope of work required under the Cocoa Board through cocoa nursery projects plus company's efficiency in mobilizing to different work sites."

Building Maintenance

During my review, I observed that the Board continuously engaged a supplier on various occasions for the provision of building maintenance and renovations both in Cocoa Board residential area in Kina Bot and Head Office totalling K539,045. The engagement was based on a certificate of In-expediency signed by the CEO and the interim chairman of the Board (*Secretary of Department of Live Stock and Agriculture*). However, I was unable to comment on whether a proper procurement or tendering process was followed before the supplier was selected and engaged. I drew this matter to the management for their comments and they responded to my query as follows;

"We engaged the supplier through Certificate of inexpediency to work on maintenance and renovation of all properties of the Board which are centralised in one location at Kenebot."

Vehicle Hire and Other Payments

I observed that the Board had continuously engaged a particular supplier for the provision of vehicle hire cars and other services during the year under review. During my review, I noted the following discrepancies:

- No Contract documents were sighted nor provided for car rentals or hire;

- An advance payment of K20,000 was made based on written letter was paid for provision of hire cars;

- Authenticity of payments for continuous use of same vehicle RAG 237 by the same officer in Port Moresby for more than six months totalling K110,086 is questionable.

  Further, Invoices 065 and 067 were paid with cheque# 217417 totalling K49,045 for 31 days and 44 days respectively. However, the nature of such long use of hired vehicles in Port Moresby was unknown; and

- A payment of K80,000 for cheque # 216990 dated 19/12/2014 stated as for *"Mobilization cost for cocoa board residence at Kubu AROB."* However, I was unable to verify this payment as proper documents such as scope of work had not been sighted nor provided for my review for this payment. Further, there was no property owned by the Board in Arawa to carry out this renovation work. This payment was dubious and suspicious in nature.

Due to the above observation, I was unable to ascertain the occurrence, completeness, accuracy and validity of these transactions and the payments made thereof. Further, continue to engage the same supplier with payment above K50,000 without minor contract agreement was a breach of *Public Finance Instruction 2/2013 Section 5 (5.2).*

I recommended the Board to adhere to *Public Finances Management Act and Financial Instructions* and to strictly comply with the Act. I brought this issue to the attention of the management and they responded to my query as follows;

"The engagement of hire car in Port Moresby was for official purposes and used by various officers at later stages, but billed under the same officer as per the initial hire. Further, the use was official in nature as stated and covered duty travels to Port Moresby. However, management takes note of the audit observations and has assured to adhere to the Public Finances (Management) Act 1995.

Regarding the mobilization cost for Kubu, ARoB, the property was allocated to and occupied by PNGCCIL. This property was to be renovated by Cocoa Board following arrangements between Cocoa Board office and PNGCCIL to further allocate the residence to the Cocoa Board office in Buka for residency purposes.

However, as the maintenance preparations were to be initiated following the release of the mobilization cost, ARoB government authorities intervened and repossessed the property thus restricting and discontinuing works on this property. Therefore, all the intended works on the property was not continued due to the intervention and repossession by ARoB government authorities."

Travel Advance Register

My review of travel and subsistence expenses amounting to K1,261,528 for the period ended 30 September 2015 revealed lack of travel acquittals by concerned staff of the Board. There was no Travel Advances Register maintained by the Board in 2015. It is a requirement as per the *Financial Management Manual Part 20 paragraph 11.2* that cash advanced to officers travelling overseas on official duty must acquit travel advances within 14 days of return from duty travel. At the same time *Part 20 paragraph 12.10* of the Manual stipulates that advances to officers for domestic duty travels to be acquitted within 7 days of return from duty travel by submitting an acquittal form. This issue was also raised in my prior year audit report.

Management responded that the Board will comply with the requirements per the *Financial Management Manual* and advised that pay deductions will commence immediately once a circular is sent out to all officers concerned.

6.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 30 September 2016 had not been submitted for my inspection and audit.

6A. COCOA POD BORER PROJECT FUND

6A.1 INTRODUCTION

6A.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.

6A.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.

6A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

6A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Project Fund's financial statements for the period ended 30 September 2015 was issued on 15 June 2017. The report did not contain any qualification.

6A.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 Project Fund for the period ended 30 September 2015 was issued on 15 June 2017. The report contained the following comments:

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

The *Public Finances (Management) Act 1995 Section 63(2)* and *63(4)* requires the Project to furnish to the Minister before 30 June in each year, a performance and management report of its operations for the preceding financial year, together with financial statements. Before furnishing financial statements to the Minister, the Project 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 period ended 30 September 2015 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 *Public Finances (Management) Act 1995.*

Preparation of Bank Reconciliations

My review and examination on the cash at bank and bank reconciliations of the Project revealed that the bank reconciliations were not prepared, reviewed and verified by concerned officers of the Project in 2015 on a timely basis. As a result, I was not able to place reliance on the effectiveness of the controls surrounding the management of cash and the bank reconciliation process. I brought this to the attention of the management and the management responded as follows:

"We take note of the weaknesses highlighted and will ensure to maintain timely preparation of bank reconciliations including segregation of duties."

Fixed Assets Register

My review of the Project's Fixed Assets Register (FAR) revealed that the Register was not properly maintained during the period under review. I noted that the FAR was incomplete as it did not include asset numbers, model and serial numbers of the different types of assets listed. Registration numbers for the motor vehicles were not provided in the FAR as well. Furthermore, these assets were not tagged for verification. As a result, I was unable to place reliance on the controls surrounding the management of the fixed assets acquired and used by the Project at year end. The management responded to my comments as follows:

"We take note of your findings and recommendations and have now taken steps to ensure the Fixed Assets Register is updated and maintained in a manner most suitable and acceptable for assets tracking, accounting, reporting and audit purposes."

Debtors and Prepayments – K22,155

During my examination of debtors and prepayments, I was not provided with schedules and supporting documents to confirm the account balance of staff debtors and investigation of cheque payments totalling K15,404 and K5,988 respectively.

As a result, I was unable to verify the balances disclosed in the financial statements as at 30 September 2015. I drew this matter to the attention of the Project Management and they responded to my query as follows:

"We acknowledge and take note of your findings and advices that a proper investigation will be conducted to establish the nature of these transactions which have been brought from prior years."

Acquittal of Travel Advances

My review of the travel expenses for the period revealed payments amounting to K7,913 were not properly acquitted as required by the *Public Finances (Management) Act (PFMA)*. It must be noted that 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 be acquitted within fourteen (14) days of return from duty travel and advances to officers for domestic duty travels to be acquitted within seven (7) days. As a result, I was unable to determine whether all the advances were properly accounted for during the year under review. I drew this matter to the attention of the management and they responded to my query as follows:

"We acknowledged your comments and recommendations and advice that on a general note, measures are already in place to penalize officers who do not comply with the requirements of the PFMA and FMM Part 20 paragraph 11.2 and 12.10. Officers who breach the requirements will be subjected to salary deductions to recoup monies not acquitted."

Lack of Proper Supporting Documentation – No Cheque Copies

During my examination of the expenditures for the financial period ended 30 September 2015, I noted that some payments did not have cheque copies attached with the vouchers. As a result, I was unable to ascertain the effectiveness of the controls surrounding the procurement process. Further, I was unable to confirm whether there was segregation of duties in procurement processes by the Project. I drew this matter to the attention of the Project Management and they responded to my query as follows:

"We already put in place the control mechanism surrounding the procurement processes including segregation of duties. We will ensure weaknesses highlighted are noted and will ensure all cheque payments must be duplicated before realized."

6A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Project Fund had not submitted its financial statements for the period ended 30 September 2016 for my inspection and audit.

6B. COCOA STABILISATION FUND (Subsidiary of Cocoa Board of PNG)

6B.1 INTRODUCTION

6B.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.

6B.2 AUDIT OBSERVATION

6B.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 Fund for the year ended 30 September 2015 was issued on 15 June 2017. The report did not contain any qualification.

6B.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 Fund for the year ended 30 September 2015 was issued on 15 June 2017. The report contained the following matter:

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

The Board had not submitted the Fund's financial statements for the year ended 30 September 2015 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the *Public Finances (Management) Act.* Consequently, the Fund had breached *Section 63(2)* and *63(4)* of the *Public Finances (Management) Act.* I brought this to the attention of the management and they responded as follows:

"We noted your comments on delay in furnishing the financial statements for your audit on a timely manner. We therefore will ensure that in future the financial statements are submitted on time to comply with section 63 (2) and 63(4) of the Public Finance Management Act."

6B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Fund for the period ended 30 September 2016 had not been submitted for my inspection and audit.

7. COCOA COCONUT INSTITUTE LIMITED OF PAPUA NEW GUINEA

7.1 INTRODUCTION

7.1.1 Legislation

The Cocoa Coconut Institute Limited of Papua New Guinea *(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 by the Cocoa Board of PNG and the Kokonas Indastri Koporesen (KIK) of PNG.

7.1.2 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.

7.2 AUDIT OBSERVATIONS

7.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Company for the year ended 31 December 2013 was issued on 9 August 2016. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Cash Balance – K512,813

In 2013, the Company maintained more than fifty (50) bank accounts and seven (7) petty cash ledgers. During my review and examination, the following were noted:

- there was a variance of K48,230 between the financial statement balance of K507,813 and the aggregate reconciled amount of K464,581;
- bank reconciliations were not prepared and reviewed on a timely basis resulting in time lapses ranging from one to more than six months;
- nine (9) bank accounts were not reconciled in 2013;

- my review revealed severe break-down in internal controls surrounding the reconciliations and general record maintenance of the bank accounts of the Company at Outstations and Provincial Centres. Bank statements and other supporting documents do not reach the Head Office on time or not at all. The East Sepik Imprest Account did not have proper reconciliations and supporting documents to confirm the amount of K145,000 disclosed at year-end;
- during the period under review, eight (8) bank accounts with carrying amount of K20,392 were closed. However, these account balances were still captured in the general ledgers but not properly reconciled, adjusted and balance transferred to other existing accounts as at 31 December 2013; and
- there were serious internal control breakdown in the management of petty cash. I noted that seven (7) ledger accounts were maintained in the accounting system however, the Company maintained only three (3) in 2013. In addition, Head Office petty cash float was K1,500 while the ledger shows only K500. Plantation petty cash float of K3,000 could not be substantiated due to lack of supporting schedules and documentations.

As a result of the above, I was unable to place reliance on the effectiveness of the controls surrounding the management of the cash during the year, nor validate the existence, accuracy and correctness of the cash balance disclosed as at 31 December 2013.

Fixed Assets – K7,184,067

The Company did not maintain a proper, complete and accurate Fixed Assets Register (FAR) to record necessary details of assets such as date of purchase, assets serial numbers, and depreciation of assets under its custody. I was unable to physically inspect certain assets against the records to confirm the existence and condition of these assets due to the absence of a proper register. I further noted that the Company did not conduct annual stock take of its assets to verify the existence, ownership and valuation of assets. As a result of these discrepancies, I was unable to verify and confirm the fixed assets balance of K7,184,067 disclosed as at 31 December 2013.

GST Clearing Account – K492,153

My review of the GST Clearing Account revealed that the balance of K492,153 disclosed in the financial statement was carried forward from prior years. I cannot substantiate this balance due to lack of proper explanation and supporting documents. As a result, I was not able to confirm the existence and accuracy of the balance as at 31 December 2013.

Inter Company Accounts – K333,748

Inter-company account relates to amounts owed by the parent entities to CCIL in this case, Kokonas Industri Koporesen. This balance was increased by K60,000 in 2013 from payments made to staff social club account.

However, I was not provided with proper explanations to verify those transactions during the course of my audit. Therefore, I was unable to confirm the treatment and accuracy of the balance of K333,748 disclosed as at 31 December 2013.

Provision for Long Service Leave – K977,309

My review of the provision for long service leave revealed that there were no schedules and supporting documents maintained by the Company to confirm the amount disclosed. I also noted that trial balance figure was the same for prior year and no adjustments were taken up in the general ledgers to capture the movements noted in the financial statements. As a result, I was unable to confirm the accuracy of the balance representing provision for long service leave at year end.

PIP Project Funds – K3,000,000

My review of the PIP funds received during the year revealed that the Company recognized and disclosed the grant as income totaling K3,000,000. However, *IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance)* requires that grants are recognized in the profit and loss account on a systematic basis over the period in which the entity recognizes expenses for the related costs for which the grants are intended to compensate. As a result, the Company did not correctly record and disclose the PIP grants to match the expenses incurred during the year in relation to project. Consequently, a liability account (deferred income) was not created to reflect the unused portion of the grant at year end resulting in the incorrect treatment and disclosure of the PIP grants.

Plantation/Other Income – K2,293,987

The Company's major revenue source was Government Grants (82%). The Company also earns income through the sale of produce from the plantations, sundry income and other donor and shareholder assistance constituting about eighteen percent (18%) in total. My review of the income from the sale of produce and other miscellaneous activities totaling K2,293,987 revealed the following:

- receipting of income from the Plantations sites and Provincial Centres lack proper control and monitoring. Records of sales and income generated outside of the Head Office were not always submitted on a timely basis;

- there was no Receipt Register which the Company keeps records of all receipt books to be used throughout the business segments resulting in lack of audit trail;
- there was no segregation of duties in the receipting and banking of sales income. I noted that the same person issuing the receipt was also doing the banking. I also noted that banking in most cases takes more than three days; and

- supporting and source documents not provided for my verification amounted to K1,525,464.97.

As a result of the above issues, I was unable to place reliance on the effectiveness of the controls surrounding the process of receipting, banking and posting of sales income. Consequently, I was unable to determine whether all income generated were received and correctly recorded in the books of the Company for the year ended 31 December 2013.

Payroll Costs

My review of the personnel costs revealed that there were no payroll summary sheets maintained by the Company. Payroll summary sheets captures fortnightly or monthly salaries and wages totals for the different types of allowances and entitlements. These summaries should always be in agreement with individual ledger balances in the accounting system. I was unable to confirm, without a separate record whether the balance disclosed in the financial statements was correctly and accurately presented. Consequently, I was unable to state whether there was proper checks and balances pertaining to the payroll functions of the Company.

Payment Vouchers

During my review of the expenses, I noted that on several instances payment vouchers totaling K395,757 were missing and could not be located. In the absence of payment vouchers, I was unable to perform substantive tests to gather sufficient and appropriate audit evidence to verify the correctness and validity of these payments.

DISCLAIMER OF OPINION

Because of the significance of the matters referred to 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 Cocoa Coconut Institute Limited for the year ended 31 December 2013."

7.2.2 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 Company for the year ended 31 December 2013 was issued on 9 August 2016. The report contained the following matters:

1. The Board Meeting Minutes

My review revealed that no proper Board Meeting Minutes were maintained by the Company in 2013. Out of the three (3) meeting minutes provided only one (1) was duly signed confirming the proceedings. As a result, I was unable to comment and conclude on whether there were proper proceedings held and whether all major transactions and decisions made and transpired were in the best interest of the Company, the Cocoa and Coconut Industry and the State.

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

The Company had not submitted its financial statements for the year ended 31 December 2013 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the *Public Finances (Management) Act 1995 (as amended)*. Consequently, the Board has breached *Sections 63(2)* and *63(4)* of the *Public Finances (Management) Act 1995*.

3. Liquidation

At the time of the review of the accounts and records of the Company for the year ended 31 December 2013, I noted that the Company was in the process of being liquidated. However, I was not provided with liquidation documents and substantive Ministerial and Board deliberations on the issue. Further, I noted that no independent liquidator was appointed to date.

4. GST Receivable – K1,861,446

During my review, I noted that the Institute did not prepare and remit to the Internal Revenue Commission (IRC) GST returns on a timely basis. It is a requirement under *Section 63-66 of the GST Act 2003* to remit monthly GST returns to IRC by the 21st day after month-end. Failure to remit GST returns on time will result in penalties of additional tax payable at the rate of ten percent (10%) on the amount owing and twenty percent (20%) calculated on an annual basis under *Section 85(1) of the GST Act 2003*.

Management upon my finding, responded that it would ensure remittances are made to IRC to clear the balance.

5. Tax Liability – K5,629,622

During my review, I noted that the Company did not remit Group Tax (Salary and Wages Tax) to IRC on a timely basis. As a result, tax liability had accumulated causing constraints to cashflows and budget. I made reference to the *Income Tax Act 1959 (as amended)*, that all Group Tax should be remitted to IRC within seven (7) days after month end.

An employer who fails to remit salaries or wages tax in relation to its employees is liable to pay the amount of unpaid tax together with any additional penalties that may be imposed. I further noted that the tax liability disclosed by the Company as at 31 December 2013 was K5,629,622. This balance did not reconcile with K5,594,000 as per the general ledger.

I brought this to the attention of the management and was informed that PNGCCIL had been in liaison with IRC and a fortnightly repayment plan was arranged.

6. Motor Vehicles

During my review of motor vehicles, I was not provided with a motor vehicle policy and the register of motor vehicles. A vehicle policy established the controls over the use of the Company's vehicles to prevent misuse and abuse. In the absence of vehicle register and policy, I was unable to determine the exact number of vehicles under the control and custody of the Company. Further, I was unable to determine existence of the vehicles during the period under review.

7. Lack of Travel Acquittals

My review of the travel and subsistence expenses amounting to K117,581 for the year ended 31 December 2013 revealed lack of travel acquittals by concerned staff of the Company during the year under review. It is a requirement under *Financial Management Manual Part 20, paragraph 11.2* that cash advanced to officers travelling overseas on official duty must acquit travel advances within fourteen (14) days of return from duty travel. *Part 20 paragraph 12.10* of the Manual stipulates that advances to officers for domestic duty travels to be acquitted within seven (7) days of return from duty travel by submitting an acquittal form. As a result, I was unable to verify the validity of travel expenses disclosed in the financial statements.

8. Lease Agreement not Sighted

I was not provided with the lease agreement in relation to a payment of K34,530 (cheque number 0002119) made to Sianery Holdings Limited for rental charges. As a result, I was unable to verify whether a valid contract agreement existed between the Company and the lessor.

7.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2014 and 2015 were submitted and arrangements were being made to commence the audit shortly.

The Company had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

8. COFFEE INDUSTRY CORPORATION LIMITED

8.1 INTRODUCTION

8.1.1 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.

8.1.2 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.

8.1.3 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 8A and 8B respectively of this Report.

8.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

8.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Company for the year ended 31 December 2013 was issued on 26 October 2016. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

1. Cash and Bank – K4,271,275 (Group: K10,122,697)

The financial statements reported a cash and bank balance totalled K10,122,697 (Group) as at 31 December 2013. Of this amount, K35,577 was for the stabilization Fund and K5,815,846 was for the Interest Bearing Deposit (IBD) of the Fund. However, I was not provided with the relevant documentation for my review to verify the accuracy and completeness of the balances. Therefore, I was unable to determine the completeness and accuracy of the cash balance taken up in the financial statements as K10,122,697 (Group) as at 31 December 2013.

2. Trade & Other Debtors – K1,174,710 (Group: K3,955,381)

The financial statements disclosed trade and other receivables totalled K3,955,381 (Group). Included in this amount were K231,468 as rental debtors, an amount of K316,566 representing impasse costs and Coffee Industry Fund trade debtors totalled K2,780,671. I was not provided with a listing of trade debtors balances or other appropriate records to conduct my audit review and their subsequent receipts. As a result, I was unable to satisfy myself as to the correctness, completeness and accuracy of these debtors balances of K3,955,381 reported in the financial statements for the year ended 31 December 2013.

3. Inventories – K873,984

The value of the inventories reported in the financial statements as at 31 December 2013 was K873,984. The management did not perform physical stock take of all inventories at the end of the year. Considering the nature of the Corporation's records and not performing the physical stock count, I was unable to satisfy myself as to the correctness of the quantities and the inventory value reported in the financial statements at K873,984 for the year ended 31 December 2013.

4. Fixed Assets – K11,608,450 (Group: K12,191,469)

4.1 The Corporation did not maintain proper fixed assets register during the year under review. There was no physical verification carried out to verify the existence of the same. Further, the value of the fixed assets, the general ledger balances, accumulated depreciation or depreciation expense for the year could not be verified since the revised fixed assets register was not made available. Therefore, I could not obtain sufficient appropriate audit evidence over the existence and correctness of the Corporation's Properties, Plants and Equipment as at 31 December 2013.

4.2 The Corporation did not revalue its land and buildings reported in the financial statements totalled K7,214,247. The company has no policy in place for the valuation of their land and building. As a result, I was unable to determine whether any such adjustments might be necessary to the financial position of the Corporation as at 31 December 2013.

5. Creditors and Accruals – K6,749,511 (Group: K6,781,649)

5.1 Group Tax – K1,503,326

Included in the Creditors and Accruals is a Group tax payable to Internal Revenue Commission (IRC) amounting to K1,503,326 which was outstanding and accumulated over the years. I was informed that this liability had now formed part of debt servicing plan with IRC. However, no documentation was made available for my review to verify the arrangements entered into with IRC.

In addition, the payroll calculation did not include all the allowances of motor vehicle, telephone, entertainment and housing for the contract officers in determining the respective employee's taxable income. Therefore, the salary and wages tax deducted and paid to IRC was considerably less. This practice is in violation of *Income Tax Act 1959 (as amended)*.

As such, I am unable to determine the appropriateness and completeness of the balance of K1,503,326 as group tax payable disclosed in the financial statements as at 31 December 2013.

5.2 Business Withholding Tax (BWHT) – K208,598

An amount of K208,598 was disclosed as business withholding tax (BWHT) outstanding as at 31 December 2013. I was not provided with adequate documentation to determine when this tax was deducted from contractors and when it became due to Internal Revenue Commission (IRC). Also, I was unable to verify whether business withholding had been deducted from all the contractors and consultants providing service to the Corporation due to lack of documentation.

5.3 Goods and Service Tax Payable (GST) – K165,605

Included in the Creditors & Accruals is the GST payable of K165,605. This amount was the net of GST receivables and GST payables of Coffee Industry Corporation (CIC) and Coffee Industry Fund (CIF) which were accumulated from 1999 to 2012. During the 2012 audit, the Corporation made a number of adjustments and journals were provided for my review.

However, no proper reconciliation had been done between the Internal Revenue Commission (IRC) statements and the Corporation's GST returns filed with IRC to support and determine the accuracy of the balance taken up as GST payable.

Further, the documentation provided by the IRC didn't include the GST returns filed by CIC for the period October 2006 to December 2010 in deriving the above GST balance. Therefore, I was unable to ascertain the accuracy of the GST payables taken up as K165,605 in the financial statements as at 31 December 2013.

Consequently, I am unable to determine the appropriateness and completeness of the balance of K6,781,649 (Group) taken up as creditors and accruals reported in the consolidated statement of financial position as at 31 December 2013.

6. Employee Provisions (current) – K106,810 and (non-current) – K593,595

I was not provided with the detailed listing or proper schedules of the accrued long service leave and annual leave as at 31 December 2013 to enable me to verify the accuracy and appropriateness of the balance disclosed in the financial statements. Further, these leave provisions were the same amount reported from 2010 until 2012 financial years as no movement was noted in these accounts. Therefore, the employee's provisions may be understated or overstated in the financial statements for the year ended 31 December 2013.

7. Accumulated Fund K19,661,478

The total accumulated fund balance of K19,661,478 stated in the consolidated statement of changes in accumulated funds was obtained after processing an adjustment of K594,570 in the revenue reserve account. This adjustment was processed as a balancing adjustment to tie up with prior year revenue reserve balance to that of current year. However, the Corporation was unable to provide explanation and necessary documentation for my verification. Therefore, I was unable to verify the validity and accuracy of the balancing adjustment amount taken up in the consolidated statement of changes in accumulated funds as at 31 December 2013.

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 consolidated financial statements of Coffee Industry Corporation Limited as at 31 December 2013, and of its financial performance and its cash flows for the year then ended.

EMPHASIS OF MATTER

Status of the Coffee Industry Corporation Limited

I was provided with the copy of the *Coffee Industry Corporation (Statutory Functions and Powers) Act 1991* and according to this Act, Coffee Industry Corporation was a Corporation and not a *"Limited Company"*. Unless Parliament by an Act or amends the existing Act to corporatize the Coffee Industry Corporation the word *"Limited"* used by the Corporation is not appropriate. My request to provide the amended Act was not made available for review to determine the appropriateness of incorporating this Corporation under *Companies Act 1997."*

8.2.2 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 Corporation for the year ended 31 December 2013 was issued on 26 October 2016. The report contained the following significant matters:

Salaries and Allowances

The Corporation's senior officers were paid accommodation and motor vehicle allowances in accordance with their contracts of employment in full without deducting appropriate taxes as per the *Income Tax Act 1959 (as amended)* similar to previous years.

I was informed that an accounting firm advised the Corporation to pay the allowances in full and the respective officers to lodge their annual returns with Internal Revenue Commission (IRC).

My review of the advice revealed that unless a variation had been obtained from the IRC by the respective officers, both housing and motor vehicle allowances must be fully taxed. Management advised in 2012 audit that a tax consultant was assisting management in this area and would improve this aspect of compliance going forward.

However, no documentation was made available for my review to determine whether the Income Tax provisions were complied in 2013. My view continues to be that without evidence of tax variations approved by the IRC, officers receiving such allowances must be fully taxed.

Salary & Wages Tax (Group Tax)

Group Tax owing to Internal Revenue Commission (IRC) by the Corporation as at 31 December 2013 was stated at K1,503,326. This amount was included along with trade and other creditors of K6,151,994 recorded under *Note 14* to the consolidated financial statements.

I noticed that the Corporation was not remitting group tax to IRC as required under *Section 65* of the *Income Tax Act 1959*. IRC now charges penalty and interest on the outstanding balances. I brought this to the attention of management and it responded that *"our tax files are being updated with assistance of the tax specialist. Moreover, CICL outstanding tax liabilities ascertained are being paid with current period taxes as and when funds are available."*

Inventories

The internal control procedure over inventories was inadequate. Adequate records including GL reconciliations and schedules of inventory were not maintained. There was no review for obsolete and damaged stock. In addition, there was no periodic stock take procedure adopted by the Corporation. I brought this to the attention of management and it responded that *"appropriate measures are taken to ensure inventories are properly recorded and stock-take documentations and records maintained."*

Coffee Export Levy – K4,432,160

The Corporation collects levy from the coffee exports as empowered by the *Coffee Industry Corporation Act 1991*. However, the act of determining the levy amount receivable by the Coffee Industry Corporation Board was not Gazetted as required by *Section 7(2)* of the Act. As such, the appropriateness of charging the levy could not be verified. I brought this to the attention of management and it responded that *"have taken this matter to the Board for endorsement for gazettal of levy and registration fees for the purpose of legal validity."*

Goods and Services Tax

The GST applied on the coffee export levy was below the approved 10% as per *GST Act 2003.* The Corporation has to ensure that it complied with the relevant legislation. Further, I was not provided with copies of GST returns that were filed with Internal Revenue Commission (IRC). Therefore, I was unable to establish whether the prescribed returns were prepared and lodged as required under *Section 63* of the *Goods and Service Tax Act 2003*. I brought this to the attention of management and it responded that *"a tax specialist has been engaged by CICL to assist with preparation and lodgment of GST tax returns with IRC."*

Personnel Records of Staff

The personnel files of the Corporation were not maintained adequately to determine their liability at a given point of time. Also, the leave records and other important correspondences like salary increment, appraisals were not available in the files.

Further, most of the contract officer's contracts were not current or not located in their personnel files. I brought this to the attention of management and it responded that *"the HR/ Personnel and administration department maintains all personnel files at CIC. For contract officers their contracts are under review for signing and copies will be filed in personnel files. We will improve on the management and upkeep of personnel files for future audit observation and review and have tasked the personnel section to improve on this area".*

Non-Compliance of Companies Act

a) The Company was not able to prepare an annual report with signed financial statements five months after the balance sheet dated on 31 December 2013 as required under *Sections 179* and *209* of the *Companies Act*. I brought this to the attention of management and it responded that *"as recommended CICL will prepare all its annual financial statements and other statutory reports in accordance with PNG Companies Act requirements."*

b) I was not provided with the copies of annual returns lodged with Registrar of Companies. As per the Companies extract dated 28 June 2016, the last annual returns lodged was up to the 23rd August 2007. I was unable to establish whether annual returns for 2008 to 2015 were prepared and lodged as required under *Section 215* of the *Companies Act*. I brought this to the attention of management and it responded that *"the office of the Company Secretary of CICL is currently updating in relation to lodgments of annual returns with the Registrar of Companies."*

8.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Corporation for the years ended 31 December 2014, 2015 and 2016 had not been submitted for my inspection and audit.

8A. COFFEE INDUSTRY FUND

8A.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.

8A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

8A.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 Fund for the year ended 31 December 2013 was issued on 29 November 2016. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

1. Cash and Bank – K35,578 (2012:620,786)

The financial statements disclosed K35,578 as cash and cash equivalent as at 31 December 2013. However, I was not provided with the bank reconciliation statement for my review to verify the accuracy and completeness of the balances. Therefore, I was unable to determine the completeness and accuracy of the cash balance taken up in the financial statements as K35,578 as at 31 December 2013.

2. Trade Debtors

The financial statements reported a trade debtors balance of K2,780,671 for the year ended 31 December 2013. The management did not provide any listings/schedule and all relevant documentation for my review. Consequently, I was unable to satisfy myself as to the completeness and accuracy of the trade debtors balance reported in the financial statements at K2,780,671 as at 31 December 2013.

3. Investments – K5,815,844 (2012:K7,757,548)

Note 3 to the financial statements disclosed K5,815,844 as Interest Bearing Deposit (IBD). However, I was not provided with IBD reconciliation statements or certificates for my verification. As such, I was unable to determine the ownership, completeness and accuracy of the Investment (IBD) balance taken up in the financial statements as K5,815,844 as at 31 December 2013.

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 Coffee Industry Fund as at 31 December, 2013, and of its financial performance, financial position and its cash flows for the year then ended."

8A.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 Fund for the year ended 31 December 2013 was issued on 29 November 2016. The report contained the following observations:

1.0 Revenue – Interest Income – K68,284

Interest Bearing Deposit Certificate was not made available for my review. I was therefore unable to verify the accuracy, correctness and completeness of the interest received by the Fund.

I highlighted in my 2012 audit that unless adequate and appropriate source documents are maintained for all investments, the exact amount of investment and the interest earned on the IBD's could not be accurately determined and accounted for in the books.

I also pointed out that the Corporation may lose the interest income earned if the management was not making sound investment decisions as to ensure more return on capital. I brought this to the attention of the management and they responded that *"audit issue rectified and corrected in the 2014 financial statements where IBD reconciliations and schedules have been reconciled and updated"*.

2.0 Records and Documentation

The Corporation had failed to maintain all source documents and necessary schedules and proper reconciliations for the transaction of the year. The Fund had disclosed K2,780,671 as trade debtors; however, no documents were maintained for my verification as such the Corporation did not comply with *Section 62 (1)* of the *Public Finances (Management) Act, 1995*.

8A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Fund for the years ended 31 December 2014, 2015 and 2016 had not been submitted for my inspection and audit.

8B. PATANA NO.61 LIMITED (Subsidiary of Coffee Industry Corporation Limited)

8B.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.

8B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

8B.2.1 Comments on Financial Statements

My report to the members of Patana No. 61 Limited in accordance with the provisions of the *Companies Act* on the financial statements for the year ended 31 December 2013 was issued on 5 December 2016. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Opening Balance

My report for the year ended 31 December 2012 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of fixed assets, inter-company loan, and going concern of the Company. Since these opening balances entered into the determination of the results of operations and cash flows of the Company in 2013, I was unable to determine whether adjustments to the financial position, results of operations, cash flows and changes in equity might have been necessary for the year ended 31 December 2013.

Fixed Assets – K583,020

The Company has not maintained a fixed assets register to enable me to verify the measurement and completeness of the assets, their present status and the accuracy of the depreciation claimed on these assets for the year ended 31 December 2013. Further, the assets purchased over the years by the parent company (Coffee Industry Corporation) for use by the company (Patana No. 61 Limited) were accounted for in the parent company's fixed assets register, which is not a proper accounting treatment.

Due to the above circumstances, I was unable to determine the measurement of the assets and the accuracy of the depreciation claimed on these assets and the net value of the fixed assets stated as K583,019 in the financial statements as at 31 December 2013.

Inter-Company Loan – K806,393

I was not provided with the loan agreement entered into between the Company and its parent company (Coffee Industry Corporation) to verify the terms and conditions of the loan and the repayment schedule. There was no movement in the loan amount since the loan was obtained from the parent company.

I was therefore, unable to ascertain the validity and accuracy of the loan liability totalled K806,393 as disclosed in the financial statements as at 31 December 2013.

Going Concern

The attached financial statements are prepared on a going concern basis. However, the Company has not generated any income since being incorporated except claiming only depreciation on the fixed assets and disclosed a negative balance of K223,375 as a deficit. I was also not provided with any documentary evidence that the parent company will provide all the necessary financial support for its continued operation.

In the above circumstance, I was unable to determine the appropriateness of preparing the financial statements on a going concern basis.

Non-Compliance of International Financial Reporting Standards

The financial statements did not include the Cash Flows and the Changes in Equity Statements which are mandatory. As a result, the Company did not comply with the *International Financial Reporting Standards*, *Presentation of Financial Statements (IAS-1)* and *Statement of Cash Flows (IAS-7).*

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 Patana No.61 Limited as at 31 December 2013, and of its financial performance and its cash flows for the year then ended."

8B.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 Company for the year ended 31 December 2013 was issued on 5 December 2016. The report contained the following observation:

1.0 Non-Compliance of Companies Act

a) The Company had not maintained sufficient records in respect of fixed assets loan documents therefore it failed to comply with *Section 188* of the *Companies Act*.

b) The Company did not prepare an annual report with signed financial statements five months after the balance sheet date on 31 December 2013 as required under *Section 179* and *209* of the *Companies Act*. I brought this to the attention of management and it responded that *"as recommended CICL will prepare all its annual financial statements and other statutory reports in accordance with PNG Companies Act requirements."*

c) I was not provided with the copies of annual returns lodged with the Registrar of Companies, therefore, I was unable to establish whether annual returns were prepared and lodged as required under *Section 215* of the *Companies Act*. I brought this to the attention of management and it responded that *"the office of the Company Secretary of CICL is currently updating in relation to lodgments of annual returns with the Registrar of Companies."*

8B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted the financial statements for the years ended 31 December 2014, 2015 and 2016 for my inspection and audit.

9. GOVERNMENT PRINTING OFFICE

9.1 INTRODUCTION

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

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

9.1.1 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.

9.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

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 Printing Office for the years ended 31 December 2013 and 2014 were issued on 5 June 2017. The reports contained similar Disclaimer of Opinions, hence, only the 2014 report is reproduced.

"BASIS FOR DISCLAIMER OF OPINION

Limitation on the Scope of my Audit

Opening Balances

I issued a disclaimer of opinion in respect of the year ended 31 December 2013 and prior years as I was unable to satisfy myself as to the accuracy of the opening balances. I was also unable to quantify the effects of misstatements, if any, which might have a bearing on the results of the operations of the Office. Since the opening balances of 2013 enter into the determination of the results of the Office for 2014, I was unable to form an opinion regarding the reliability of the financial records maintained by the Office and the closing balances stated in the financial statements.

Cash at Bank – K953,351

My examination of the Cash at Bank balance and its related records revealed that the preparations of the Office's final accounts including monthly bank reconciliations were outsourced to an accounting firm. My review of the bank reconciliations and related records revealed that bank reconciliations were not timely done and reviewed by independent officers of the Office. The main operating account of the Office has not been properly reconciled on a monthly basis for the year under review. I noted that the monthly cash book balances from January to November stated in the reconciliation did not agree to its General Ledger balances at the month end. Further, I was unable to confirm the basis on which the December cash book balance reconciled to its General Ledger. Consequently, I was unable to confirm the accuracy of the cash at bank balance of the Main Operating Account disclosed at year end.

Trade Debtors – K5,846,115

My review of the Trade Debtors balance revealed that the Office did not have a properly maintained Debtors Control Account and a debtors listing during the year. I noted that there were inconsistencies between the Debtors Control Account and the original source documents (invoices). I further noted that there was no periodic reconciliation done between these records. In addition, due to incorrect postings, payments received from the debtors have not been adjusted in the ledgers to reflect the correct balance which has overstated the ending balance. As such, I was unable to satisfy myself as to the accuracy and completeness of the trade debtors balance disclosed at year end.

Property, Plant and Equipment – K5,184,663

I noted that the Office disclosed K5,184,663 as its Fixed Assets balance at year end. My review of the Fixed Assets Register (FAR) and other supporting documents showed that the Register was not properly maintained and updated showing additions of assets made during the year totalled K63,200. I was not provided with supporting documentations for the purchase of assets totalled K293,741. Further, there was no stock-take done to confirm the existence and valuation of the assets held at year end. As such, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K5,184,663 at year end.

Revenue – K11,232,051

My review of the revenue account and its related supporting documents revealed that there were no timely reconciliations done between the general ledgers and the Inward Cashbook Register (ICR) for proper recording and disclosure at year end. Consequently, I noted a variance of K1,032,907 between the general ledger and financial statements balance of K11,232,051 and the Inward Cashbook Register balance of K10,199,144. As such, I was unable to conclude on the accuracy and completeness of the revenue of K11,232,051 disclosed in the financial statements.

Provision for Long Service and Recreation Leave

The Government Printing Office did not disclose long service and recreation leave provisions for the permanent staff in its financial statements. There were no records in relation to personnel leave credits that was maintained by the Printing Office. Without such records, I was unable to ascertain whether payments in relation to leave credits were properly accounted for in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters referred to 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 Government Printing Office for the year ended 31 December 2014."

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 Printing Office for the years ended 31 December 2013 and 2014 were issued on 5 June 2017. The reports contained similar observations, hence, only the 2014 report is reproduced.

1.0 Land Acquisition – K2,595,424

My examination and review of land acquisition and related records revealed that the Printing Office had failed to resort to proper approval procedures per the *Public Finances (Management) Act 1995*. I noted that a total of K2,595,424 was expended on land acquisition alone (excluding other costs).

I was subsequently provided with the draft Housing Policy Guideline for the roposed Housing Scheme which was pending approval. I was also provided with copies of brief to Former Chief Secretary who further directed the Printing Office to furnish a brief to the Central Supplies and Tenders Board (CSTB) on the acquisition and concurrently seek the Tenders Board's approval prior to any further progress or developments on these allotments.

The Tenders Board recommended the Printing Office to seek legal opinion from the State Solicitors' Office to advise the Printing Office on the best action possible to facilitate this matter, as the CSTB would be advised accordingly and collectively by the State Solicitors' Office on this matter to finalize due process.

This matter was reported to the management in my previous report as well and they had responded that all necessary corrective measures had been undertaken and implemented except the final process which was awaiting a response from the State Solicitor's Office to finalize due process.

2.0 Revenue – Segregation of Duties

My review of the revenue generated by the Printing Office revealed that internal controls surrounding the revenue cycle were weak and inadequate. I further noted that there was no segregation of duties implemented by the Office as the same officer was responsible for invoicing, receipting, banking and record keeping. Since there was only one officer responsible, this may open avenues for malpractice to take place in the absence of proper controls. I recommended to the management to ensure separation of duties amongst different officers for better control purpose.

3.0 Personnel Emoluments

- **Government Printer's Contract Allowances**

  My review of the Government Printer's contract and its related records revealed that the Government Printer's salary and allowances were at the level equivalent to that of Contract Category for Deputy Secretaries in the Central Agencies on salary Grade 20.2 per his Contract of Employment for three (3) years starting 1 April 2011. But I noted that the contract was signed on 8 May 2014, only after his contract period (three years) had expired due to administrative delays as advised by the Government Printing Office.

  Total salary, allowances and benefits per annum for old and new contracts were K226,636 and K231,316 respectively. The allowances for housing and motor vehicle of K26,000 each annually were also included as part of this package, administered by the Department of PM & NEC and paid through the Government's Alesco payroll system.

  During my review, I noted that in addition to the above allowances, following additional payments were made to the Government Printer for rentals and motor vehicle expenses.

- **Rental Accommodation**

  My review and examination of the staff accommodation revealed that the Government Printer had his rental accommodation totaling K246,375 paid for in 2014 by the Printing Office.

However, I noted that the Government Printer's contractual agreement with the State under Department of Prime Minister and National Executive Council revealed that he was entitled to housing allowances stipulated under his contract of K26,000 per annum and paid through his salary.

In my view, the Government Printer was in breach of his Employment Contract with the State by double dipping from housing allowances as well as accommodation rental paid for by the Printing Office. The management concurred with my comments and stated that corrective actions had been taken in 2015 by ceasing fortnightly housing allowances payable to the Government Printer. Upon his resignation in February 2015, the existing tenancy agreement was terminated between the Printing Office and Advance Printing (Landlord) for the property being rented for the Government Printer.

- **Motor Vehicle Expenses**

I noted that a total of K187,200 was paid for hire cars from two (2) different firms despite being paid the full motor vehicle allowance of K26,000 per annum under his employment contract. These vehicles were hired based on the Government Printer's hire arrangements which were approved only by him. Further, I noted that one (1) motor vehicle purchased and owned by the Printing Office was under his custody for 24 hours use with fuel. Consequently, the Government Printer had breached *Part II, Section 5* of the *PFMA* which states among other duties, the departmental head (Senior Officers) as an accountable officer must ensure that expenditure was incurred with due regard to economy, efficiency, and avoidance of waste. The Government Printer also breached his own *Employment Contract* with the State by benefitting himself excessively in relation to his housing and motor vehicle allowances. The management concurred with my comments and stated that corrective actions had been taken in 2015 by ceasing fortnightly motor vehicle allowances payable to the Government Printer.

4.0 Expenditure

My review of the expenditure revealed that there had been a number of payments made without proper supporting documents. I noted that a total of K305,027 had been done without proper contractual agreements. I further noted payments totalled K346,275 had been done without proper delivery dockets.

I recommended management to ensure that proper procurement processes are followed as per the *Public Finances (Management) Act 1995 (as amended)* when procuring goods and services. Management concurred with my recommendation and agreed to take corrective action for improvement with some improvements had already been made.

9.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Printing Office for the year ended 31 December 2015 had been submitted and arrangements were being made to commence the audit shortly.

The financial statements for the year ended 31 December 2016 had not been submitted by the Printing Office for my inspection and audit.

10. INDEPENDENCE FELLOWSHIP TRUST

10.1 INTRODUCTION

10.1.1 Legislation

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

10.1.2 Objective of the Trust

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

10.1.3 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.

10.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

10.2.1 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 2015 and 2016 were issued on 11 November 2016 and 15 May 2017 respectively. The 2015 report contained a Qualified Opinion while the 2016 report did not contain any qualification.

10.2.2 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 2015 and 2016 were issued on 11 November 2016 and 15 May 2017 respectively. The reports contained similar comments, hence only the 2016 report is reproduced as follows:

Budget Review

My examination on travel and accommodation revealed that the Trust had incurred K356,271 in relation to travel and accommodation during the year. I noted that the Trust employees visited various provinces during the year to assess the students' performance, pay their allowances and other related expenses. However, the amount budgeted for travel expenses in 2016 was K200,000. As a result, the Trust had exceeded its budget by K156,271.

I brought this issue to the attention of the management and it responded as follows;

"The budget appropriation of K200,000 was an estimate at the beginning of the year as per the work plan. However, some of the Key Priority Areas (KPA) activities were incorporated during the year, such as orientation, signing of students' scholarship agreements, configuring and issuing of Identification Cards and issuing of Pocket Allowances. All these activities were conducted in the respective training institutions of each province.

Other major activities such as Projects Inspection, Monitoring and Evaluation, Overseas Feasibility Studies and Board Meeting outside of Port Moresby were also included during the year."

Fixed Assets

As reported in my previous reports, the Independent Fellowship Trust did not maintain any Fixed Asset Register to record the purchase of its assets and disposals. The Department of Labour and Industrial Relations was responsible for accounting of all IFT fixed assets. The Trust in its response stated that they will comply accordingly to keep proper Register of all assets.

Travel and Subsistence

My review of the expenditures revealed that the Trust did not properly maintained the Travel Advance/Acquittal Register. During my review, I noted internal control weaknesses in relation to incomplete acquittals and lack of supporting documents for duty travels. I recommended the Trust to maintain a Travel Advance/Acquittal Register to record all duty travels taken and the register be maintained and updated regularly with all travel documents. I drew this matter to the attention of the management and the management responded as follows;

"We will comply and improve on this weakness as stated to avoid future implications mainly on acquittals, attachments and cash payments."

11. INDEPENDENT CONSUMER AND COMPETITION COMMISSION

11.1 INTRODUCTION

11.1.1 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.

11.1.2 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.

11.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

11.2.1 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 2016 was issued on 12 May 2017. The report did not contain any qualification.

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 Commission for the year ended 31 December 2016 was issued on 12 May 2017. The report contained the following matters:

Budget Review

My review on the budget against actual expenditure on selected expenses revealed that the Commission had exceeded its approved budget ceiling by K1,760,995 in 2016. I reminded the Commission that lack of proper budgetary control provide avenues for unauthorized spending which may affect the other mandated responsibilities due to lack of funding. As a result, the Commission should review its budget on a regular basis.

In response to my observation, the Commission responded as follows:

"In 2016, we received a total government appropriation of K9.587m and K2.280m was generated internally to fund our expenses. The Government appropriation received was not sufficient to fully meet our expenses under the 2016 budget. We therefore resorted to our internal revenue to supplement the budget shortfall to sustain our operations between January and December 2016."

Cash at Bank – K2,741,971

During my review of the Cash at Bank and bank reconciliations for the year, I noted the following:

- Cheques totaling K45,228 remained unpresented for more than five (5) months and over. These cheques were never investigated on a timely manner and accounts adjusted/corrected accordingly.

- Deposit in transit of K4,056 was noted in the bank reconciliation as at 31 December 2016. Of this, K4,016 relating to two separate transactions which were not deposited on a timely basis. My review revealed that cash was held in the client's premises for more than five (5) days; and

- At 31 December 2016, a total of K15,904.65 was cancelled and reversed in the cashbook (cash ledger). However, I was not provided with source documents to confirm and verify the cancelled cheques. Further, I noted an amount of K44,216 had been classified under Other reconciling items without explanation and supporting documents.

I brought this to the attention of the management by emphasizing that lack of timely investigation and prompt adjustments/corrections can lead to bank balance incorrectly reconciled and disclosed at year end. I further stressed that deposits and unreconciled amounts with no explanation can create avenues for fraudulent activities without being detected on a timely manner.

Management noted my finding and assured me that commitment was made since 2015 to improve record keeping, strengthening of the internal controls and to comply with key government policies and legislations to deliver effective, transparent and prudent management.

ICCC Staff Clearing (Salary Sacrifice) – K243,261

The Commission, for years had been applying salary packaging or sacrifice to contract officers' annual salaries. The packaging was done to cater for motor vehicle purchase, housing/rentals, medical and life insurance and school fees. During my review, I noted that there were negative (credit) balances against individual staff accounts indicating over deductions. The over deductions and negative balances had resulted due to lack of proper reconciliation in prior years. As a result, I was not able to comment whether the Commission was properly maintaining salary sacrifice records and that correct deductions had been effected.

Leave Fares

A total of K176,609 was incurred by the Commission as leave fare expense in 2016. During my review, I noted three (3) payments totaling K69,288.80 with discrepancies. One (1) did not have proper supporting documentation while the other two (2) were applied without complying with *General Orders 14.41* by claiming leave fares for children over the age of nineteen (19).

Management responded to my finding as follows:

"We note your observation and its related implication as a result of not complying with General Orders (GO 14.41). In view of your recommendation, we will ensure to comply with the General Order quoted and that supporting documents will be kept and maintained for records and audit purposes."

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 AND RECOMMENDATIONS

12.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Corporation's financial statements for the years ended 31 December 2014 and 2015 were both issued on 28 February 2017. The reports contained similar Qualified Opinions, hence only the 2015 report is reproduced as follows:

"BASIS FOR QUALIFIED OPINION

Trade Debtors – Malahang & Ulaveo Industrial Centres (MIC & UIC)

The Corporation disclosed its trade debtors balance as K2,127,000 (included as part of total debtors of K2,633,447) at the year-end. I noted that of the K2,127,000 receivable, K1,846,277 still remained outstanding for a long period of time, therefore the collectability of this amount was in doubt. Further, I was unable to establish whether the Corporation had made adequate provision against these debts. As such, I was unable to satisfy myself as to the accuracy and collectability of the trade debtors as reported at the year end.

Land Sales Debtors – K385,173

Included in the total debtors of K2,633,447 were Land sales debtors totaling K385,173. I observed that land sales were outstanding since 2008. The Corporation had not provided adequate provision for doubtful debts in its accounts. Consequently, I was unable to ascertain the accuracy, correctness and collectability of the sundry debtors as reported in the financial statements at 31 December 2015.

Cash at Bank – K4,610,902

The independent bank confirmation certificates for the Business Growth Centre (BGC), Ulaveo Industrial Centre (UIC) and Lands accounts for the year ended 31 December 2015 were not provided 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 2015 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 reports 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 years ended 31 December 2014 and 2015 were issued on 28 February 2017. The reports contained similar comments, hence only the 2015 report is reproduced as follows:

1. Advance/Acquittal Register

The Corporation had not maintained Advance/Acquittal Registers for Head Office and Malahang Industrial Centre despite my recommendation in my previous audits. 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 stated that it would take necessary remedial action to rectify the issue.

2. Staff Advance

My review of the Corporation's staff debtors revealed that there was no proper control, monitoring and recovery of the staff advances. As a result, recouping staff advances was slow and ineffective. I also noted that the Corporation had no policy on staff advances to control, monitor, recover and deal with those who don't comply with it. As such, staff advances amounting to K110,293 were outstanding (without movement) for a considerable period of time. The management responded to my query as follows;

"All advances have been minimized; those requesting advance assistance from ICDC have been given against their entitlements. As for the list of outstanding debtors as per the audit report, action has been taken to recoup these amounts. Effort is being made to enforce full repayment by management with fortnightly compulsory deductions. Advances without movements are for the officers who left ICDC without appropriate notices. Hence, management has decided to give notices of termination so that their entitlements will be used to offset their debts."

3. Fixed Assets Register

During my review, I observed that the Corporation's Fixed Assets Register contained many of its old assets and was not properly updated. As a result, I was unable to ascertain the correctness and appropriateness of the amount reported in the financial statements. I drew this issue to the attention of the management and they responded as follows:

"Management is now in the process of carrying out a full stock-take and update the Fixed Assets Register to reflect a proper and accurate record of all its assets".

4. 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 were supposed to offset each other showing a zero (0) balance. I noted that there was an outstanding balance of K328,591 that needed to be reconciled and cleared. I drew this to the management's attention and the management responded to my concern as follows:

"We agree with your comment that the intercompany balances should offset or contra each other. The above difference will be further investigated and rectified in the accounts. In cases where the funds are paid to specific projects, the accounts have been classified as advances mainly because no funds were appropriated for these projects under ICDC budget from the National Government.

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."

5. Non-Compliance with the *Public Finances (Management) Act*

The Corporation had not prepared and submitted its financial statements to my Office before 31 March 2015 to enable me to conduct the audit and issue the audit report within the time frame stipulated in the *Public Finances (Management) Act 1995*. Consequently, the Corporation had breached *Sections 63(2)* and *63(4)* of the above *Act.*

6. Expired Employment Contracts

During my review, I noted that eight (8) officers' employment contracts were expired and were not renewed at the time of audit. The same observation was noted during my audit in 2014. I sought explanation from the ICDC management and they responded to me as follows:

"These contracts have been prepared and submitted to the A/Managing Director for his approval but have been held back pending the approval of the Managing Director's position."

7. 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;
- The Corporation did not submit the GST Returns for the year as stipulated by *GST Act 2003 (S.63 – 66)*;
- Salary Sacrifice Approval from IRC was not sought for two (2) officers;
- Inadequate control over cash encashment and payment to suppliers;

- Reconciliations of general ledger accounts were not prepared on a periodic basis and the expenditure general ledgers for Business Growth Centre were not made available for my audit and inspection;
- There was no Internal Audit Unit established as per *Section 9* of the *Public Finances (Management) (Amendment) Act;*
- Minister's approval of the Land sale was not provided for 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 Corporation had not submitted the financial statements for the year ended 31 December 2016 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 (IRC) be transformed into an Independent Statutory Authority through a separate Act of Parliament.

In accordance with the *NEC Decision*, the *Internal Revenue Commission Act 2014* was 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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

13.2.1 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 period ended 1 October to 31 December 2014 was issued on 5 October 2016. The report contained the following observations:

1.0 Financial Statement

The Commission's financial statements (Statement of Cash Receipts and Payments) submitted for my review were not prepared based on the cash book (except for the Government Grant). The figures reported in the financial statements were not coming from the Commission's cash book instead taken from the bank statements balances. Consequently, the amounts reported in the financial statements did not indicate the accurate cash position of the Commission.

During the period of review, I observed that the Commission was still in the process of transformation since becoming an Authority in 2014. I suggest the Commission should take measures to prepare proper financial statements (Statement of Cash Receipts and Payments) and submit them for my review and verification.

2.0 Administration Bank Account, National GST Trust Bank Account, Provincial GST/Inland Trust Bank Account, GST Refunds Drawing Bank Account; And National Government Drawing Bank Account

The above accounts were the major bank accounts kept by the Commission. The following weaknesses were noted during my review:

- There was no proper accounting system to record the daily tax revenue collection and transfers. Revenue collections and transfer were manually recorded in excel spreadsheets.
- The bank reconciliation reports were reconstructed from the bank statements.
- The Cash at bank balances at the end of the year reported were not the same amounts coming from the cash book. Instead the Commission reported the bank statements ending balances.
- Cash book and summary schedules were not in agreement with the financial report figures. As a result, it was difficult to identify whether all receipts received were deposited on a timely manner.

- The preparations/processes of the bank reconciliations were not correct and proper.
- Lack of audit trail and difficulty in identifying the correct source documents.

I recommended to management that the Commission should adopt a proper accounting system to record and account each transaction of the revenue receipts and transfers. In addition, the amounts reported in the financial report should come from the Commission's cash book and not from the bank statements. Further, SIGTAS may also be utilize to prepare financial reports and bank reconciliations.

The management responded to my observation as follows:

"As previously mentioned, IRC is utilizing the SIGTAS system to truck taxation revenue. IRC in conjunction with Department of Finance is examining the possibility of integrating the information captured within SIGTAS into IFMS. The IFMS accounting system has robust reconciliation and reporting modules. Utilization of these modules would ensure accurate and timely reporting and will alleviate any concerns regarding reconciliations. IRC recognizes this as the most appropriate long-term solution. As an interim step whilst the feasibility of this integration is being reviewed, IRC has created a reconciliation module entitled TRS – Tax Reconciliation System. This system is being used to reconcile the Admin Account for 2016".

3.0 Independent Bank Confirmation Certificates

During the course of my review, I did not receive the third party Bank Confirmation Certificates for the respective Trust Account balances.

Account #	Account Name	Bank Statement Balance 31/12/2014
1000962618	National Capital District Commission VAT Trust Account	37,254,455.43
1000687407	New Ireland Province VAT Trust Account	245,321.58
1000688930	North Solomon Province VAT Trust Account	2,472,642.62
1000490748	Oro Province VAT Trust Account	375,145.33
1003391016	Sandaun Province VAT Trust Account	195,345.42
1000585280	Southern Highlands Province VAT Trust Account	1,589,322.54
1000321067	Western Highlands Province VAT Trust Account	2,419,530.50
1001052291	West New Britain Province VAT Trust Account	990,359.37
1000943315	Western Province VAT Trust Account	818,049.16
1000930820	Simbu Province VAT Trust Account	66,236.60
1000585679	Central Province VAT Trust Account	80,995.17

1000016634	East New Britain Province VAT Trust Account	1,679,366.02
1000873030	Eastern Highlands Province VAT Trust Account	1,524,528.20
1000873030	East Sepik VAT Trust Account	614,760.19
1000004633	Enga Province VAT Trust Account	379,082.90
1000943231	Gulf Province vat Trust Account	1,625,233.58
1000100649	Madang Province VAT Trust Account	1,673,650.55
1000433958	Manus Province VAT Trust Account	4,204,163.62
1632156	Milne Bay Province VAT Trust Account	1,000,980.12
1000117153	Morobe Province VAT Trust Account	8,851,680.79
43146576	GST Refunds Drawing Account	150,374,501.98

The management responded that IRC has followed up with the appropriate banking institutions and understands that the bank certificates have been provided to my Office. I acknowledged that I received bank confirmation certificates to other main and Trust accounts except for the above.

4.0 Personnel Files

Review of personnel files revealed that these were not updated on a timely basis. Employee history cards, leave records (hard copies of leave application forms and payments), tax declaration forms were not properly maintained in their individual staff files and made available for inspection at all times.

The management informed me that the Concept Payroll system would have all the records of salary and payments made for each individual, appointments, transfer etc. The hard copies of these should be in personnel files as well. They further informed that upon realizing that not all records are in personnel files, HR has engaged additional resources to assist with filing of documents in respective files.

5.0 Employment Contracts

During my review of personnel files, I noted that some of the senior contract officers' contracts were not on file, as well as some contracts that were on file have expired and not being renewed as at the year under review. The management responded to this issue as follow:

"IRC is redefining its practices to ensure officers are proactively liaising with appropriate authorities to make sure that contracts are documented and signed in a timely manner".

6.0 Other Operational Expenses

I noted that a total of K425,866.78 was paid to purchase vehicles from Other Operational Expenses Vote (135) account. I also noted that there was a Motor Vehicle Vote (222) account in the Commitment Ledger where all the purchases of vehicles should have been purchased from and taken up in that account. Hence, Other Operational Expense Account (135) was overstated and Motor Vehicle account was understated by that amount. The management responded to my comment as follows:

"*IRC has implemented a robust process to ensure transactions are correctly identified before posting to the commitment ledger. The implementation of IFMS will assist in ensuring this process is correctly followed".*

13.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audits of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2015 was completed and the report will be issued shortly.

The Commission had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

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 citizens 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 report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2016 was issued on 9 May 2017. The report did not contain any qualification.

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 2016 was issued on 15 May 2017. The report did not contain any qualification.

15.2.2 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 Koporesen for the year ended 31 December 2016 was issued on 15 May 2017. The report contained the following comment:

Managing Director's Contract of Employment

My examination of the Personnel Records for the year ended 31 December 2016 revealed that the *National Executive Council (NEC)*, in its *Decision No: 14/2013* dated 23 February 2013 confirmed the appointment of Dr. James Vele Kaiulo as Managing Director of Kokonas Indastri Koporesen for a period of four (4) years.

The NEC further directed the Secretary for Department of Personnel Management to prepare a *"Contract of Employment"* for the Managing Director, which had not been finalised.

I brought this to the attention of the management in my previous audits and followed up during the current audit as I was unable to determine the basis on which the Managing Director's remuneration was calculated.

The Koporesen took note of my concerns and advised that they would continue to follow up with the Department of Personnel Management for the signed *"Contract of Employment"*. In addition, the management stated that the Managing Director was on the same scale of the previous Managing Director and adjustments would be effected once the *"Employment Contract"* was signed.

15A. PAPUA NEW GUINEA COCONUT EXTENSION FUND

15A.1 INTRODUCTION

The *Copra Marketing Board (Amendment) Act 1997* provides for the establishment of the Papua New Guinea 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 2016 was issued on 15 May 2017. The report did not contain any qualification.

15B. PAPUA NEW GUINEA COCONUT RESEARCH FUND

15B.1 INTRODUCTION

15B.1.1 Legislation and Objective of the Fund

The Papua New Guinea 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 Limited 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 2016 was issued on 15 May 2017. The report did not contain any qualification.

16. KUMUL CONSOLIDATED HOLDINGS (Formerly Independent Public Business Corporation)

16.1 INTRODUCTION

16.1.1 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.

The Principal IPBC Act was amended on 12 August 2015. The name of the Independent Public Business Corporation was repealed and replaced with Kumul Consolidated Holdings. The objectives and functions of the principal Act were not amended, all dividends declared by Kumul Consolidated Holdings shall be paid into the Sovereign Wealth Fund.

16.1.2 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.

16.1.3 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.

16.1.4 Trust of the Corporation

The Trust of the Corporation is *General Business Trust*. Comments in relation to the Trust are contained in paragraph 16A.

16.1.5 Subsidiaries of the Corporation

The subsidiaries of the Corporation are *PNG Dams Limited* and *Port Moresby Private Hospital Limited*. Comments in relation to these subsidiaries are contained in paragraphs 16B and 16C of this Report.

16.1.6 Projects of the Corporation

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

16.2 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 Corporation for the year ended 31 December 2015 had been completed and the results were being evaluated.

The fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2016 was in progress.

16A. GENERAL BUSINESS TRUST (Trust under Kumul Consolidated Holdings)

16A.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.

16A.1.1 Objectives of the Trust

- The Kumul Consolidated Holdings (KCH) (formerly Independent Public Business Corporation of PNG) was appointed as Trustee of the Trust and all moneys belonging to the Trust shall be invested or dealt with by KCH 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 Kumul Consolidated Holdings 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.

16A.2 AUDIT OBSERVATIONS

16A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Trust's financial statements for the year ended 31 December 2014 was issued on 4 August 2016. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Limitation of Scope on prior year Disclaimer of Opinion

My audit report for the year ended 2013 was a disclaimer of opinion since the Trust did not disclose its investments at fair value in accordance with *IAS 39, Financial Instruments: Recognition and Measurement*. These investments were significant in values which were of fundamental importance in the preparation of the financial statements. Any adjustments that were found to be necessary to the opening balances of these investments would have consequential effect on the determination of financial performance for the year ended 31 December 2014. I was unable to determine whether adjustments to the financial statements might have been necessary for the year ended 31 December 2014.

Therefore, I was unable to determine the accuracy of the Statement of Comprehensive Income and Statement of Changes in Equity and the associated disclosures for the year ended 31 December 2014.

Measurement of Unquoted Equity Investments in State Owned Enterprises (SOEs)

Note 14 of the financial statements disclosed K9,100,015,381 as Investments under Non-Current Assets of which K8,042,883,783 was stated as investments under State Owned Enterprises (SOEs). However, I was not provided with sufficient and appropriate evidence on the fair value increments recorded for the investments in Port Moresby Private Hospital Limited (POMPH) and PNG Dams Limited (PDL) at a carrying value of K79.6 million (2013: K38.54m) and K466.5 million (2013: K88.15m) respectively.

As such, I was unable to determine whether any adjustments might have been required to the carrying value of the Trust's Investments for POPMPH and PDL for the year ended. Consequently, I was unable to determine the accuracy and the measurement of the Trust's unquoted investments in the State Owned Enterprises as at 31 December 2014.

Investments in Lae – Port Project

Note 14 (b) of the financial statements disclosed K311,165,419 as investments in Projects under construction. Included in the above investments was K230,300,279 as investment made in the Lae Port Development Project (LPDP) as at 31 December 2014. However, the audited financial statements of LPDP for the year ended disclosed K278,833,898 as the total investment made by the Trust in the Project leaving an unreconciled difference of K48.5 million. As a result, I was unable to determine whether adjustments were required for the carrying value of the Trust's investments in LPDP amount to K230,300,279.

QUALIFIED OPINION

Certain balances as at 31 December 2013 enter into the determination of financial for the year ended 31 December 2014. Because of the existence of a disclaimer of opinion in opening balances as described in the basis for qualification above, I was unable to form an opinion on the Statement of Comprehensive Income, Statements of Changes in Equity and the related disclosures for the year ended 31 December 2014.

In my opinion, except for the matters described in the paragraphs 2 and 3 in the basis for qualified opinion above, and except for the possible effects of such adjustments, if any, as might have been determined to be necessary to the Statements of Comprehensive Income had the limitations on the scope of work as described above in paragraph 1 of basis of qualification not existed:

(a) the financial statements of General Business Trust for the year ended 31 December 2014:

(i) give a true and fair view of the financial position and cash flows for the year ended on that date; and

(ii) the financial statements have been presented in accordance with International Financial Reporting Standards and other Generally Accepted Accounting Practices in Papua New Guinea;

(b) proper accounting records have been kept by the Trust; and

(c) I have obtained all the information and explanation as required except for the matters referred to in qualification paragraphs."

16A.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 Trust for the year ended 31 December 2014 was issued on 4 August 2016. The report contained the following comments:

Investment Corporation of Papua New Guinea (ICPNG)

The Investment Corporation of Papua New Guinea was vested with IPBC in pursuant to *Gazettal Notice No.33* dated 6 April 2004. The value of this property was taken up in the financial statements as K8,660,957 for the last ten (10) years. The conditions attached with the vesting notice was not to use the General Business Trust (GBT) assets (money) for the disposal of remaining assets and settle the liabilities and submit all the outstanding financial statements to my office to enable me to complete the audit and issue the reports. However, my repeated request to provide the financial statements for the years since 2002 was not responded positively by the respective managements in place all these years.

Investments in Niugini Insurance Corporation Limited (NIC)

Niugini Insurance Corporation was corporatized and the business was transferred to Pacific MMI Insurance Limited in 1998 except to keep the insurance liability and assets attached with the liabilities remained with the Corporation.

However, in 2010, IPBC informed my office that they filed an application for deregistration of the company but no documentation was made available for my review to determine the appropriateness of the claim.

Investment made in Aquarius No. 21 Limited by Motor Vehicles Insurance Trust Limited, now owned by IPBC

The Aquarius No. 21 Limited (the Company) which owns a 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 was taken up at K950,000 in the books, by which 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 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 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 spite of mentioning this requirement in my management letters and reports since 2002.

IPBC Board had written off this investment in the GBT books and advised me that the Company was deregistered in 2015. However, no deregistration certificate from Investment Promotion Authority was made available for my review and verification.

16A.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 Trust for the years ended 31 December 2015 and 2016 were in progress.

16B. PNG DAMS LIMITED (Subsidiary of Kumul Consolidated Holdings)

16B.1 INTRODUCTION

16B.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.

16B.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.

16B.2 AUDIT OBSERVATIONS

16B.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 2013 and 2014 were issued on 27 July 2016. The reports contained similar Disclaimer of Opinions, hence, only the 2014 report is reproduced.

"BASIS FOR DISCLAIMER OF OPINION

Fair Valuation of Investment Properties

Statements of Financial Position of the Company disclosed K466,500,000 as the fair value of investment properties for the year ended 31 December 2014. However, I was unable to obtain sufficient and appropriate audit evidence that would support the fair value recognised in the statement of financial position at K466,500,000 as at 31 December 2014. Therefore, I was unable to determine whether any adjustment might have been found necessary to the statement of financial position as at 31 December 2014 or the statement of comprehensive income, statement of cash flows or statement of changes in equity and related notes to the financial statements for the year then ended.

DISCLAIMER OF OPINION

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, 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 PNG Dams Limited for the year ended 31 December 2014."

16B.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 2015 had been 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 2016 was in progress.

16C. PORT MORESBY PRIVATE HOSPITAL LIMITED (Subsidiary of Kumul Consolidated Holdings)

16C.1 INTRODUCTION

16C.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.

16C.1.2 Objective of the Company

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

16C.2 AUDIT OBSERVATIONS

16C.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 2013 and 2014 were issued on 27 July 2016. The reports contained similar Disclaimer of Opinions, hence, only the 2014 report is reproduced.

"BASIS FOR DISCLAIMER OF OPINION

Fair Valuation of Investment Properties

Statement of Comprehensive Income of the financial statements disclosed K6,915,000 as gain on change in fair value of investment properties for the year ended 31 December 2014. However, I was unable to obtain sufficient and appropriate audit evidence that would support the fair value recognised in the statement of financial position at K95,131,000 and the gain on change in fair value as shown in the statement of comprehensive income as at 31 December 2014.

Therefore, I was unable to determine whether any adjustment might have been found necessary to the statement of financial position as at 31 December 2014 or the statement of comprehensive income, statement of cash flows or statement of changes in equity and related notes to the financial statements for the year then ended.

DISCLAIMER OF OPINION

Because of the significance of the matter described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient and appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of Port Moresby Private Hospital Limited for the year ended 31 December 2014."

16C.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 2015 had been 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 2016 was in progress.

17. LEGAL TRAINING INSTITUTE

17.1 INTRODUCTION

17.1.1 Legislation

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

17.1.2 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.*

17.2 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 years ended 31 December 2014, 2015 and 2016 were completed and results were being evaluated.

18. MINERAL RESOURCES AUTHORITY

18.1 INTRODUCTION

18.1.1 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 the Authority commenced operations in June 2007.

18.1.2 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.

18.1.3 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.

18.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

18.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2012 and 2013 were issued on 8 August 2016 and 7 March 2017 respectively. The reports contained similar Qualified Opinions, hence, only the 2013 report is reproduced.

"BASIS FOR QUALIFED OPINION

Production Levies

Reported in the statement of comprehensive income was an amount of K18,325,461 for production levies (Non-Alluvial) income. During the audit, completeness and accuracy of the production levies account was not verified. I noted that the Authority did not have proper controls and procedures to capture all production levies.

Production levies were calculated based on 0.25% of assessable income of producing mines. I noted during 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 declared by the producing mines to calculate and remit the production levies.

Unallocated Receipts

Reported in the statement of financial position was an amount of K2,629,465 for unallocated receipts. During my audit, the nature of these funds received could not be determined.

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 Mineral Resources Authority 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 *Public Finances (Management) Act*."

18.2.2 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 Authority for the years ended 31 December 2012 and 2013 were issued on 8 August 2016 and 7 March 2017 respectively. The reports contained similar significant matters, hence, only the 2013 report is reproduced:

Statutory Audit

The audit of the 2013 Statutory Financial Statements was not finalised by 31 May 2014 due to weaknesses in the Authority's accounting system and overall internal control environment. As such, management was unable to meet the deadline required by *Section 36(1)* of the *Mineral Resource Authority Act 2005* which requires audited financial statements of the Authority to be furnished to the Minister before 31 May 2014.

Internal Control Environment

During the course of my audit, I identified several weaknesses in the Authority's accounting system and overall internal control environment operated during the year ended 31 December 2013. 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 implement a system whereby reconciliations were prepared for each item stated on the Statement of Financial Position and that reconciling items were followed up promptly and resolved. Management should also ensure that reconciliations are performed between the general ledger and sub-ledgers and that reconciling items were followed up promptly in order to ensure completeness and accuracy of data for reporting purposes.

Internal Audit Function

I noted non-compliance with the *MRA Act Section 39 (5)* which states that MRA is required to appoint an internal auditor to provide a written audit report not less than quarterly to the Minister and Treasury. There was no internal audit work undertaken by an internal auditor.

I recommended that management comply with the MRA Act by engaging internal auditors and to furnish reports thereon.

The management responded as follows:

"Yes we agree that we do not have internal audit manuals but now that we have an Internal Auditor we will work with the Internal Auditor to have internal audit manual in place."

Royalty Trust Deeds

I noted during my review that the Authority kept in its books royalty funds for Simberi Gold and New Guinea Gold landowners. These monies or funds were noted to be held without a proper royalty trust deed in place setting out the rights and responsibilities of all parties including the operator or the mine, the landowners and MRA. In the absence of a royalty trust deed, any legal issues arising from the use of those funds would affect MRA in the future.

I recommended management that all future trust funds held for and on behalf of land owners should come with a properly executed trust deed.

The management responded as follows:

"Board has asked management to look into this matter and pay money back to the various custodians by June 2017."

Fixed Assets Register Maintenance

During my review, I noted that there were no proper controls in place in maintaining the Fixed Assets Register (FAR). Further, there was no physical asset verification conducted in 2013. Best practice suggests that companies should perform a physical inventory at least annually to ensure the physical accountability of all fixed assets and the completeness and accuracy of financial records. No regular physical verification of assets may result to control deficiency in monitoring the assets existence and condition as the assets may not be able to identify or locate or some assets may have been fully depreciated and disposed of during the year and not considered in the financial statements.

I noted that the fixed asset verification exercise was carried out in 2015. As such, I recommended the management to develop cost-effective physical asset verification procedures to ensure its fixed assets were properly safeguarded, maintained, utilized and monitored and controls around the maintenance of the fixed assets should improve.

The management responded as follows:

"We have now captured all fixed assets in our new Fixed Assets Register Module and physical verification of assets will now be a regular exercise. And this will enable us to properly account for new acquisitions and disposals as well as account for yearly system generated depreciation."

Ineffective Controls in Invoicing

I noted that all accounts receivable/sales transactions had no (sequential) invoice nor any substantial documentation for the calculation of the assessable income and production levy except for receipt copies and payment advise from miners. As a result of this, I was unable to perform tests to address the risks identified of misstatement in the revenue account. Ineffective ways of raising invoices can encourage fraudulent activities.

I recommended that the Authority should establish an effective accounting method to address the risk of inaccurate billing which may result in potential losses and other impeding issues leading up to incorrect revenue recognition.
The management responded as follows:

"We have now in placed an improved invoicing system in our new computerized accounting system which requires an invoice for all debtors and creditors. Management is embarking on a system, in particular for production levy where MRA will issue invoices in the beginning of the year based on data on production and revenue mining companies submit to MRA on a monthly basis as required under the Mining Act."

Acquittal of MRA Debit Cards

From inquiry and inspection of documentation during my audit, 40% of the entire acquittals for expenses were submitted to finance. I was unable to verify 60% of the total expenses due to lack of supporting documents required for the acquittal process.

I recommended the management to strengthen controls around the use of debit cards issued by the Authority and effectively follow the written policy that was set up initially.

The management responded as follows:

"Debit Card Policy is now being drawn up for approval by the Board and the use and acquittals of debit card expenses will be spelt out in the Policy."

Production Levy (Non-Alluvial Income)

I noted that the production levies were calculated and remitted by producing mines (thus "self-invoicing"). Production levies income was calculated based on 0.25% of assessable income of producing mines and accounts for almost 70% of the Authority's income. The Authority did not test the veracity of the "self-invoiced" revenue and the Authority 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 have remitted the required production levy to the Authority. This caused uncertainty around the completeness and accuracy of production levy income recorded which resulted in a qualified audit opinion.

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 make a profit or a loss for the relevant financial period.

The management responded as follows:

"Management have taken proactive action on this and have engaged an accounting firm to carry out an independent audit to verify or ascertain the base (i.e. assessable income) used by the mining companies to calculate the production levy they remit."

18.3 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 2014 had been completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and examination of the Authority's financial statements for the year ended 31 December 2015 was in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

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 AND RECOMMENDATIONS

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 2015 was issued on 14 April 2017. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Asset Revaluation Reserve

At 31 December 2015, asset revaluation reserve balance was K18,979,236 resulting from a valuation exercise conducted in 2011. At year end, the Authority did not maintain a detailed register, reconciling the increment or decrement by individual asset revalued to the total balance of K18,979,236 as reported in the financial statements.

The Authority would not be able to comply with the requirements of *International Financial Reporting Standards IAS 16 Property, Plant and Equipment* in regards to any future revaluation or disposals especially in relation to the following:

1. If a revaluation results in increase in value, it should be credited to other comprehensive income and accumulated in equity under the heading *"revaluation surplus"* unless it represents the reversal of a revaluation decrease of the same asset previously recognized as an expense, in which case it should be recognized in profit or loss.

2. A decrease arising as a result of a revaluation should be recognized as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset.

3. When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings, or it may be left in equity under the heading revaluation surplus. The transfer to retained earnings should not be made through profit or loss.

Accordingly, I was unable to ascertain the validity and accuracy of this balance at year end.

Payment of Labour and Land Mobilisation Costs to Lands Investment Limited

Included in land and building amount of K30,960,607 was an amount of K2,924,899 relating to costs incurred for the construction of the prefabricated houses. As qualified in the 2014 audit, the Authority had paid additional amount of K1,048,998 above the approved contract value of K2,475,000 as approved by the Central Supplies and Tender Committee. In addition, there were no specific clause in the contract in respect of the above payments of K1,048,998. The houses had not been fully completed and certified for occupancy. However, I noted that the Authority had commenced depreciation of the houses, which was not in compliance with *International Financial Reporting Standards IAS 16 Property, Plant and Equipment*.

Accordingly, I was unable to ascertain the basis on which the payment was made to Lands Investment Limited.

Staff Provision

Included in total staff provision account was an amount of K1,797,650 (current balance of K480,696 and non-current balance of K1,316,954) of which K1,778,502 related to staff provision as follows:

- Annual leave and leave fares of K229,176;
- Long service leave of K1,316,954; and
- Gratuity of K232,372.

I was not provided with any documentary audit evidence to substantiate and perform my audit procedures on staff provision balances. Accordingly, I was unable to perform alternate audit procedures to validate the accuracy and completeness of these balances at year end.

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 National Agriculture Quarantine and Inspection Authority for the year ended 31 December 2015:

(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 Matters, the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act 1995*."

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 2015 was issued on 14 April 2017. The report contained the following significant matters:

- **No Updated Contracts and Payroll Files**

  I requested for staff files especially for current or updated employment contracts or employment letters that clearly shows approved revised base salary, allowances etc. From the samples selected, I was not provided with updated employment contracts or letter of employment to confirm their current base salary, allowances etc.

After several dialogues with management, I was provided with letters written during my audit period but back-dated to the employee start dates providing the current base salary and allowances details. Best practices should ensure that all employee files were updated regularly to capture any changes in the employment status of the respective employees. However, I noted that this practice had not been consistently implemented by the Authority.

In addition, during my review of personnel files, I had noted on several occasions that personnel files were misplaced or not readily made available and instances where employment contracts were not included in the personnel files. Also, I was not provided with information/data to ascertain number of days staff were entitled for Sick Leave, Recreation Leave and Furlough Leave.

- **Staff Terminated or Resigned**

I selected a sample of four (4) employees for my review of staff terminated or resigned during the year under review and noted the following issues:

- *Employee file for one of the employees was not provided for my review;*
- *Most of the staff final entitlements were not yet paid pending appeal and various reasons from those staff;*
- *No provision was recorded in the general ledger to take up this potential future liability to NAQIA (in line with accrual basis of accounting). A line of communication should have been maintained between payroll division and finance division to provide sufficient information to finance division to record such potential future liabilities; and*
- *No proper records of minutes to track the status of the terminated staff to ensure that appropriate actions were taken on a timely manner to avoid unnecessary financial liabilities to NAQIA potentially imposed under the Labour Act.*

- **Communication between Payroll Division & Finance Division**

Proper accounting practices ideally would require a clear communication between payroll and finance divisions. This procedure would ensure that timely, accurate and complete accounting information were provided to the finance division that captures all staff related transactions on a timely manner. I further noted during my review that critical payroll information were not provided by payroll to the finance division such as:

- *Leave Fares accrual;*
- *Recreational Leave entitlements;*
- *Furlough Leave entitlements;*
- *Gratuity provision; and*

- *Provision of potential liabilities such as delay in payments of final entitlements for resigned/terminated staff.*

From the weaknesses noted above, I recommended to management the following;

1) A 100% review and update of all staff records to be performed immediately to ensure that all payroll records were updated on a timely manner and reconciled regularly to relevant payroll records and general ledgers maintained by the Authority's finance team.

2) All terminated or resigned employees in which their financial entitlements were not paid due to various reasons were to be calculated, approved and provided to the finance team for recording to appropriate liability.

Management responded as follows:

"NAQIA HR division has assigned a HR officer to take complete ownership of the process to update staff by division and compile accordingly by surname for ease of reference. Going forward HR will develop Staff Records Database and can be updated simultaneously to keep back up file and updated periodically. Also checklist template will be developed as well as excel spread sheet so that Recreation Leave, Compassionate or Sick Leave credits are taken off against the accrual leave balance. Once all the processes are developed, updated and in progress it is assumed that there will be a clear flow of communication between line officers in HR and Finance. These are all work in progress and we hope to complete all these tasks by the end of the first quarter of 2017."

- **Fixed Assets**

During my review of the fixed assets, I noted that any additions/purchases related to existing assets during the year were not included as costs of the original assets rather included as a new line in the Fixed Assets Register. Generally, such additions/purchases related to existing assets were added to the costs of the existing assets. Such may result in depreciation charges been charged at different rates and had different economic useful lives.

I recommended a 100% asset verification to ensure costs related to additions were added to the existing assets and not as separate assets (lines) in the Fixed Assets Register. Also, I recommended that a review of the sub-ledger (Fixed Assets Register) depreciation rates to ensure that the depreciation rates were applicable and consistent with the economic useful life of the individual assets and ensure that there was consistency in the depreciation rates used which should be in line with applicable documents such as the financial statements and Financial Manual.

Management responded as follows:

"A planned major stock take and valuation of the assets has been endorsed by the Board in its last board meeting and that has been budgeted for in the 2017 annual budget. It's a major project and to be implemented as priority. Depreciation applied in Accpac were not amended as per the Valuation Report. We note that as a priority concern and we will progress to locate the Valuation Report and advice."

a) Kilakila Housing Project

The following issues were noted in relation to this housing project:

- I noted that the Authority's housing project was still under work in progress and not commissioned/certified yet for occupancy. However, this project had been treated as fixed assets and depreciation calculated. This was not in accordance with IFRS requirements as assets were capitalized and depreciated when it was available for use.

- Actual total cost of this project recorded at year end was K3.1m (2014: K3.9m) and the depreciation charges was K0.1m (2014: K0.2m). During 2015 audit, I noted that there were some costs incorrectly classified as Kilakila Housing Project and needed to be re-classified to the correct asset cost centres;

- I noted that the cost especially for land and buildings were not itemised by house but were grouped as one component. For prudent accounting and reporting purposes, it was suggested that itemised reporting by house was recommended; and

- Although there were costs/additions incurred in relation to the project, there were no significant changes in relation to the stage and status of the project since reported in 2013.

I recommended management that all costs related to the Kilakila Housing Project be recorded under work in progress (asset account) until such time the assets were available for use. Also in the existing accounting treatment, the assets be reversed off and recorded as work in progress and the corresponding depreciation charges reversed. I also stressed that itemised reporting by house be undertaken to assign costs to each house rather than one component as currently reported.

Management responded as follows:

"There was no record of Work In Progress (WIP) account at that stage with the major one on the Kilakila housing project. We take note of our discussions made and we will trace all available records and compile all payments records and get a WIP account registered. WIP accounts have been created in the 2016 accounts and are all in order."

Compliance with *Public Finances (Management) Act 1995*

The National Agriculture Quarantine and Inspection Authority had not prepared and submitted their financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December preceding, resulting in breaches of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995*.

19.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Authority for the year ended 31 December 2016 had not been submitted for my inspection and audit.

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 allocate
d 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 AND RECOMMENDATIONS

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 2016 was issued on 19 May 2017. 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 2016 was issued on 19 May 2017. The report contained the following observations:

Accounting System/Software

My review of the Institute's accounts and records for the year ended 31 December 2016 revealed that the Institute had been using the Quicken Accounting Package for past several 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 that was purchased some years back was not fully utilized by the Institute. In my view, possibility of errors and mistakes would be minimized, a lot of time can be saved and a better audit trail would be available when this new Accpac Accounting System was fully utilized. This matter was reported to management in my previous reports as well and the Institute is yet to implement my recommendations.

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 was fully upgraded, a project currently ongoing, the new system would be fully implemented.

Land Titles, Valuation and Non-Disclosure

My review of the Fixed Assets Register of the Institute revealed that land belonging to the Institute including Head Office where all establishments were currently located and titles secured were not valued and disclosed in the financial statements. Meanwhile, three (3) land titles for three (3) portions of land located in one of its high latitude research stations where the Institute's activities had been carried out were still not secured. I recommended the Institute to value the land where titles had been secured and make a proper disclosure and continue to pursue with the Lands Department to secure land titles for those portions of land where research activities were carried out.

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 National Executive Council (NEC), Provincial Governments (PGs) and Local Level Governments (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 financial statements of the Council for the years ended 31 December 2013 and 2014 were both issued on 14 October 2016. The reports contained similar Disclaimer Opinions, hence, only the 2014 report is reproduced.

"BASIS FOR DISCLAIMER OF OPINION

Internal Control Environment

As reported in my prior years audit reports on internal controls, I noted significant weaknesses in the National AIDS Council Secretariat's overall internal control environment operated during the year 2014. 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 during the year under review.

Cash at Bank – K3,255,751

My review of the Secretariat's Recurrent and Development Accounts bank reconciliations revealed that the bank reconciliations were not prepared, reviewed and verified by senior competent finance officers of the Secretariat in 2014 on a timely basis. I was also not provided with the independent bank confirmation to ascertain whether all bank balances and bank accounts held under the name of the Secretariat were captured in the books. As a result, I was not able to neither verify and confirm the accuracy and completeness of the balance nor place reliance on the effectiveness of the controls maintained by the Secretariat over cash.

Adjustments to Expenditure Accounts – K439,686

During my review, I noted that the total recurrent expenditure was adjusted from K8,579,992 to K8,140,306 resulting in a decrease of K439,686. The expenditure account adjusted was the Salaries & Allowances. I was not provided with any explanation and supporting documentation for the adjustment. As a result, I was unable to comment and conclude on the accuracy and completeness of the expenditure balance disclosed at the year end.

Non-Disclosure of Fixed Assets by way of Notes to the Statement of Receipts and Payments

As stated in *Note # 1* to the Statement of Income and Expenditure, the Secretariat prepared its accounts using cash basis approach in accordance with the government accounting conventions. My review of the Statement of Income and Expenditure for the year ended 31 December 2014 revealed that the Secretariat did not disclose by way of notes the summary of Fixed Assets in the financial statements to comply with the requirements of the International Public Sector Accounting Standards, Financial Reporting under the Cash Basis of Accounting. This standard requires that items not recognized under cash basis are disclosed in the notes to the financial statements. Consequently the Secretariat did not properly disclose by way of notes to the financial statements the fixed assets value and comparatives.

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 am unable to and do not express an opinion on the financial statements of the Secretariat for the year ended 31 December 2014."

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 2013 and 2014 were issued on 14 October 2016. The reports contained similar observations, hence only the 2014 is reproduced as follows:

1. Development Budget

My review of the 2014 development budget revealed very weak controls and lack of compliance to budget appropriation regulations and requirements. The Secretariat had spent outside of its development budget. As a result, I noted that funds were not utilized for earmarked sixteen (16) budgeted activities for the year. Consequently, I was not able to confirm and conclude whether the development funding received during the year was expended for their intended purposes.

2. Salary Advances – K87,332

Salary Advances was disclosed as K87,332 at 31 December 2014 in the Income and Expenditures Statement. During my review, I noted that staff took out salary advances for motor vehicles and other related expenses.

However, I was unable to substantiate the basis for which the advances were taken due to lack of proper source documents such as quotations of the motor vehicles or the building material quotes supporting the requests. I also noted that there was no clear policy guideline establishing the criteria for the payment of advances to staff.

Without a clear policy guideline in place, public funds are susceptible to misuse and misapplication. Consequently, I was not able to place reliance on the controls surrounding the management of advances by the Secretariat.

I brought this to the attention of the management and it responded as follows:
"There was no policy manual to guide the process of salary advances in 2014. However, all salary advance applications and request were submitted to the office of the director and were approved by the then Director of National AIDS Council Secretariat.

Since the new Director came into office in mid-2013, applications and requests for approval of staff advances have not been approved or entertained. The National AIDS Council in its meeting on 4th August, 2015 approved the engagement of a consultant to formulate/develop HR Policy Manual which is now in its final stages."

3. Payment of Vehicle allowances to officers provided with office Vehicle

My review of personnel expenses revealed severe breakdowns and malpractices in the Secretariat. I noted that three (3) senior contract officers of the Secretariat were each provided vehicles for twenty-four (24) hours use with fuel. Despite the officers being provided with Secretariat vehicles for 24 hours with fuel, they were also paid vehicle allowances resulting in double-dipping by those concerned officers of the Secretariat.

I brought this issue to the management and it responded as follows:

"This is true that these officers were double dipping. However, the Director authorized them to keep the vehicles after hours because of the nature of their work and where they lived was very far.

It was unfortunate that they all got their car allowances in advance for 3 years and at the same time NACS was deducting their repayment and it was a catch 22 situation."

4. Acquittal for Provincial AIDS Council Offices (PACs)

My review revealed that there was no proper acquittal of grants totaling K356,593 to Provincial AIDS Council Offices (PACs) located around the Country. Without the acquittals, I was not able to verify and confirm whether funds released were used for their intended purposes.

Management noted my concern and responded as follows:

"There is no competent or Finance Officer at PAC level who can be able to perform financial functions such as maintaining accounting records, prepare monthly bank reconciliations and prepare financial reports and submit to NACS.

NACS in 2013 was unable to consider recruiting one because the most needed position was not in the PACs structure.

However, only those PACs who successfully acquitted their received funds have been disbursed with their next allocation of funds. Most PACs have submitted acquittal reports quarterly with too many financial discrepancies which they were unable to take corrective actions so the next funds due at quarterly basis were not remitted and disbursed to them.

Financial management of PACs has been a disaster for NACS in terms of acquittals, bank reconciliation and asset register. This would be a thing of the past now because PACs offices have been closed commencing 2016."

5. Fixed Assets

My review and examination on Fixed Assets revealed that the Fixed Assets Register (FAR) was not properly maintained in 2014. Following are other additional issues noted during my review.

A total of K330,815 relating to Information and Communication Technology (ICT) equipment were not captured in the Register and disclosed at year end.

Around three hundred and sixty-five (365) items listed in the FAR did not have particulars including purchase cost, purchase date, cheque/ILPOC numbers and serial numbers. Consequently, I was unable to carry out physical inspection to confirm the assets existence and condition.

The Secretariat did not have an approved Fixed Assets Policy. The Policy will specify clearly the procedures and processes involved in the purchase, recording, usage and custody of the Fixed Assets. In the absence of a proper policy on Fixed Assets, I was not able to conclude on whether the assets of the Secretariat were properly safeguarded.

Due to the above observations, I was not able to place reliance on the controls surrounding the management and use of the fixed assets of the Secretariat and whether the fixed asset were properly safeguarded to ensure value for money.

6. Travel Acquittal and Travel Advances Register

It is a requirement as per the *Financial Management Manual Part 20 paragraph 11.2* that cash advanced to officers travelling overseas on official duty must acquit travel advances within 14 days of return from duty travel. At the same time *Part 20 paragraph 12.10* of the Manual stipulates that advances to officers for domestic duty travels are to be acquitted within 7 days of return from duty travel by submitting an acquittal form.

However, my review of the travel and subsistence expenses totaling K48,999 for the year ended 31 December, 2014 revealed lack of proper travel acquittals by concerned staff of the Secretariat. The Travel Advances Register was not properly maintained by the Secretariat. As a result, I was not able to ascertain whether all travel expenses incurred and paid during the year were properly acquitted.

Management noted my concerns and responded as follows:

"NACS maintains Travel Acquittal Register, however the travelling officers are not cooperating in terms of acquittals. The control of Travel Acquittals will now be strengthened and those officers who do not acquit their first T/A will not be receiving travelling allowances when they travel for the second time until the first travel allowance is acquitted."

21.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Secretariat for the years ended 31 December 2015 and 2016 had not been submitted for my inspection and audit, despite numerous reminders.

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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

22.2.1 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 2014 was issued on 11 April 2017. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope due to Disclaimer of Audit Opinion on the previous year's Financial Statements

The previous year's audit report (2013) was issued with a full disclaimer of opinion. The reason for the disclaimer of opinion was the limitation of scope arising from an inability to substantiate most balances included in the general ledger. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have a consequential effect on the financial statements of the Corporation for the year ended 31 December 2014. Therefore, there was considerable uncertainty as to the accuracy of the 2014 opening balances. Due to the lack of records and inadequate reconciliations, I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the opening balances or the comparatives presented in the financial statements.

General Ledger Integrity

I identified several significant material adjustments and weaknesses in the Corporation's trial balance and accounting system. The adjustments and the existence of weaknesses in the accounting system occurred due to a number of reasons including non-existence of an appropriate accounting policy in respect of posting of entries, no reviews of accounting entries or journals prior to posting them into the Attaché system, creation of new general ledger accounts without obtaining proper approvals and no timely reconciliation of the general ledger at month end. Accordingly, I was unable to place reliance on the accounts and records submitted for my audit verification.

Limitation of Scope Arising from Lack of Information on Fixed Assets

As at 31 December 2014, the property, plant and equipment balance was K113,439,531 with a net written down value of K35,290,127. However, the Corporation had not maintained a Fixed Assets Register to properly record, account and control the movement and perform depreciation of its assets. Further, due to non-maintenance of Fixed Assets Register, I was not able to verify the fixed assets additions, disposals, transfers and the correctness of the depreciation during the year under review.

The Corporation had not conducted any revaluation of its land and building consistent with the *International Accounting Standard (IAS) 16*. The Corporation had also expensed new assets purchased in the year under review valued at K1,190,415 which was against the *IAS 16*. As a result, I was unable to perform the necessary audit procedures to verify the physical existence, accuracy, ownership, usefulness and valuation of the Corporation's asset balances at the year end.

Limitation of Scope - Trade Debtors

As at 31 December 2014 the trade debtors balance was K993,034. There was no sub-ledger or aged debtors' listing maintained by the Corporation to control and monitor the account. As a result, I was not able to identify individual balances that made up the trade debtors balance. Consequently, I was unable to verify the accuracy and correctness of the trade debtors balance reported in the financial statements at year end.

Limitation of Scope -Trade Creditors and Accruals

According to *Note 10* of the financial statements, the Corporation reported trade creditors balance of K248,635 and other payables and accrual balance of K2,299,804. The composition of the K248,635 were K34,295.72 representing unpresented cheques brought forward from year 2012 and various creditors totalled K202,789.36 and undetermined amount of K11,549.92. In addition, I was not provided with proper schedule or listing in regards to the other payables and accruals reported above. The trade creditors' sub-ledger system in the Attaché Accounting system was not used to account the trade and other creditors account, hence some balances were not in agreement with the general ledger. As a result, I was not able to confirm the completeness and accuracy of the creditors' and accrual balances reported as at 31 December 2014.

Limitation of Scope – Related Party Balances- Government Debtors and Creditors

As at 31 December 2014, the Government Debtors' and Creditors' balances were K1,292,919 and K915,762 respectively as reflected in *Noted 9* of the financial Statements. The Corporation did not provide any reconciliations or appropriate documentary evidence to support the amount.

In the absence of sufficient audit evidence on the related party balances, I was unable to verify the completeness, accuracy and validity of the Government Debtors' and Creditors' balances as at 31 December 2014.

Limitation of Scope - Non Accounting of Employee Provisions

According to *Note 11* of the financial statements, the Corporation's Provisions for Furlough leave and Recreational leave balances were K2,589,749 and K1,460,513 respectively. The two balances were brought forward from prior year without accounting for any movements in the current year under review. The current year's employee provisions were manually calculated by the Human Resource Division and passed to the Finance Division for posting into the general ledger only at the year-end but contained numerous mistakes and errors resulting in incorrect balance. Hence, these were not posted into the general ledger for the current year.

The non-accounting of the two employee provisions to reflect any movement for the year may result in significant misstatement in the financial statements. In the absence of accounting for employee provisions for the year, I was unable to ascertain the accuracy and validity of the employee provision balances at year end.

Issued Capital

As at 31 December 2014, the Issued Share Capital balance was K25,503,697. I was not provided with any records and reconciliations to verify the details and accuracy of the share capital balance. In the absence of sufficient evidence, I was unable to verify the accuracy and validity of the Issued Capital balance as at 31 December 2014.

Unexplained Adjusting Balance in Asset Revaluation Reserve

The Asset Revaluation Reserve balance in the financial statement was K23,854,910 while the general ledger balance was K22,910,269. An unexplained adjusting balance of K843,233 was taken up in the financial statement to balance the Statement of Changes in Equity. I was not provided with any records and reconciliations to verify the details and accuracy of the adjustments including the movements in the Asset Revaluation Reserve balance. In the absence of sufficient evidence, I was unable to verify the validity, completeness and accuracy of the Revaluation Reserve balance at the year end.

Reporting Requirements under the Corporation's Act 1973

The *National Broadcasting Corporation Act* under *Section 27* states that the application of *Part VIII* of *Public Finances (Management) Act 1995,* which requires the Board of the Corporation to furnish to the Minister an annual report on the progress and performance of the finances before the end of 30 June each year. I noted that this had not been complied with for the 2014 financial year.

The Board have not met their responsibility to ensure the Corporation reports furnished to the Minister as required under this Act. Failure of the Board to produce the annual report to the Minister within the time frame was a breach of the *NBC Act 1973* or *Part VIII* of the *Public Finances (Management) Act 1995.*

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraphs, 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 National Broadcasting Corporation for the year ended 31 December 2014."

22.2.2 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 2014 was issued on 11 April 2017. The report contained the following significant matters:

Non-Compliance to Generally Accepted Accounting Practices

The 2014 Financial Statements had not considered the depreciation expense in the Profit and Loss Statement including expensing of the 2014 fixed assets additions without depreciating them as required by the *International Accounting Standards (IAS) 16*. The asset revaluation reserve balance in the financial statement did not agree to the general ledger (GL) balance as there was an adjustment made to the asset revaluation balance in the financial statement to reconcile the Equity balance in the Balance Sheet. Further, several GL balances relating to assets and provisions were not updated or adjusted to reflect the correct positions of the balances in 2014. The GL balances include provisions for furlough leave, provisions for annual leave, trade debtors and other debtors and prepayments. At the year end, the GL balances mentioned were brought forward from 2013 without any movements. Also some adjustments identified to be posted into the GL in order to amend the balances to reflect the correct positions were not posted into the GL rendering these balances at the year end to be incorrect.

Consequently, the 2014 Trial Balance (TB) printed for my review lack integrity and showed evidence of weakness of the accounting environment. The TB contained incorrect balances and did not reflect the true position of the Corporation at year end. This means that the 2014 Financial Statements also contained inaccurate balances and was also materially misstated. Management's practices and maintenance of the accounting system were not in accordance with the generally accepted accounting practices including the *International Financial Reporting Standards (IFRS)*.

I recommended the management to conduct an assessment of the accounting functions and implement improvements to the basic accounting functions and to prepare its financial statements in full compliance with the requirements under the IFRS. The management responded as follows;

"The management is taking note of your recommendations concerning the financial statements adjustments. NBC has been preparing its financial statements late for several years. But this has dramatically over the years now. NBC is on par with its annual audits, with 2015 audit to commence soon. Hence more concentration shall be given around the way the general accounting I conducted and adjustments are treated once NBC is on par with the accounting period or annual reporting period.

NBC has expensed its assets due to no proper Fixed Assets registry (system) to reflect capital expenditure; hence all assets were expensed. Even that depreciation was not considered. NBC had adjusted to reflect this significant IFRS issues in 2016."

Government Debtors and Creditors

My review of related party balances included amounts due to and receivable from government statutory bodies, state owned entities and senior management staff remunerations, staff loans and board allowances. I noted that there were no aged debtors listing maintained for the government debtors' account to clearly identify the balances, their ages and to control the balances. There were also no reconciliations performed to ensure each individual government debtors were paid and identifed those which were outstanding. The government creditors balance of K915,762 is related to 2012 and prior years' unpresented cheques, which were yet to be identified and cleared. Further, the movement and retrenchment of finance staffs had contributed to the poor level of maintenance of accounting and historical records including a weak internal control environment.

The non-maintenance of these critical accounting records had restricted me from performing my audit procedures on these accounts in order to place any reliance on the balances. Such weaknesses in the internal control environment provide a conducive environment for fraud and other irregularities without detection.

I recommended the management to review the related party debtors' and creditors' accounts in detail and assess legitimacy of the balances in the general ledger particularly those brought forward from previous years.

Those debtors found to be genuine to be followed up for payments while genuine creditors to be settled. I also recommended that management to prepare reconciliations of the two accounts including key individual supplier/customers' on a monthly basis. The management responded as follows:

"The management is taking note of the recommendations done. There are some reconciliations getting underway to establish the genuine figures by 2016. Significant accounts were identified and adjustments are done in 2015 and 2016 to fix the GL."

General Ledger Integrity – General Ledger Reconciliations

The National Broadcasting Corporation (NBC) had not performed any monthly reconciliation of its entire general ledger accounts for better internal control purposes. This included some major general ledger balances relating to the assets and liabilities. These general ledger accounts were not reconciled and independently reviewed on a monthly basis resulting in unresolved balances carried forward from year to year.

In addition, specific contributing issues noted include changes to some key finance positions, no independent review of monthly bank reconciliations and an unclear financial reporting structure. Consequently, I was unable to place reliance on the whole accounting system maintained and applied by the NBC as a result of internal control weaknesses noted in the Finance Division.

Due to the weak internal control environment, the risk of fraud and malpractice without detection was significantly high. Furthermore, I was also unable to complete and conclude my audit procedures on the general ledger balances for the year ended 31 December 2014 due to unavailability of critical accounting information.

I recommended that the Executive Director Finance and the Accountant to conduct a review of the current accounting processes and procedures in Finance and implement changes to improve the internal control environment. Management responded as follows;

"NBC is willing to take on board some of the recommendations as some recommendations were already part of the operating system. It is a matter of implementing the procedures by responsible division leaders/heads with the staff by 2016 and beyond.

NBC has recently recruited new officers in the recent restructure and are members of CPAPNG. Hence NBC will promote training and development as one of its key priority areas.

NBC's internal control is strong especially the procurement processes and procedures when procuring goods and services. The approval of procuring goods and services is still maintained by the Chef Accountable Office (CEO) through strict processes as per required by the PFM act. The risks associated with procurement are well contained by the system but implementation was the issue highlighted for NBC to comply. The Accounting process and procedures is under review and by 2016 there will be some effective implementation of the process. The challenges of using attaché accounting system in 2013 and 2014 were one of the main reasons behind improper management of the GL environment. Also if internal audit function was supported by management with funding and directions NBC should address the issues internally."

Missing Records and Files

During my review, certain vital audit information requested was not provided as these were either not available or missing. I was informed that certain experienced staff members including the executive Director Finance and Accountant, who were there in 2014 had left or were terminated between 2015 and early 2016. When these staff left, the information I required for my audit was misplaced or left somewhere where current finance staff were unable to locate. The missing vital audit information resulted in the limitation of my audit scope.

I recommended that the departing finance staff must go through a proper hand-over-take-over in order to update new staff with status of their accounting work, records and other information within their section before leaving. Also NBC had to implement a strict and effective policy and system of filing and records management since it was important when there was frequent change of staff positions. Management responded as follows:

"The current new (intake) management in 2016 is aware of this situation and take note of the recommendations provided by the external auditors.

NBC has been providing all information requested and deny any missing records and files. The information was within NBC but during the audit NBC couldn't provide due to certain responsible officers not available."

No Tax on Assessable Benefits Allowances

During my review, I noted the following;

- Certain management staff were provided with rental accommodation at prices ranging from K1,000 to K2,000 per week. The rental rates would fall within medium cost house and in area 1 in terms of taxable allowances. As such, all staff that were provided with accommodation under this arrangement would attract an assessable benefit allowance of K400 in his/her tax computation. My reviews of payroll records revealed that this prescribed amount had not been included in the fortnightly pay calculation in 2014 for assessment of income tax earned;

- All executive managers were provided motor vehicle with fuel and were allowed unrestricted use of the vehicles. This would also attract an assessable benefit allowance of K125 in their tax computation. My review of payroll records also revealed that this prescribed amount had also not been included in the fortnightly pay calculations in year 2014 for assessment of income tax earned; and

- Other staff members were provided accommodation at the Corporation's owned flats or houses. Such arrangement fall within low cost house or flat and in area 1 attracting an assessable benefit allowance of K160 in his/her tax computations. My review of payroll records revealed that this prescribed amount was not included in the fortnightly pay calculations in year 2014 for assessment of income tax earned.

The implications for the above issues were such that the Corporation was in breach of the PNG Income Tax Act- salary and wages tax, the staff who were provided with accommodation and motor vehicle with fuel had been under paying tax, and the Corporation may be liable for a fine of K2,000 and also order to pay the un-deducted tax payable amounts to the Internal Revenue Commission.

I recommended that the prescribed taxable amounts must be included in fortnightly tax computations for those staff that were provided accommodation and motor vehicles with fuel and have no usage restriction and the management responded as follows:

"In 2015 after the successful restructure exercises conducted by NBC, management has consulted an Attaché specialist to update, review and incorporate into the Attaché payroll module, a comprehensive computation that will calculate staff leave accruals every fortnight in conjunction with the normally payroll runs."

Journals and Creation of General Ledger Accounts

I noted significant weaknesses in relation to journal entries and creation of new general ledger accounts as follows;

- Some manual journal entries posted into the general ledger system were not independently reviewed by the Executive Director Finance or the Accountant;
- Some manual journal entries posted were not stamped as posted;
- A complete listing of all manual journal entries processed into the attaché system in the 2014 financial year were not provided for my review;
- There were many new general ledger accounts created in 2014 but were not supported by approval from the management team including the Managing Director; and
- Some new general ledgers created had similar functions to those that already existed.

The key controls to detect fraud and errors in financial reporting system were the segregation of duties, and the independent review of manual journals posted in the ledger system including appropriate approvals for creation of new general ledger accounts in the attaché system.

Without such controls, the general ledger and the resulting financial reports produced may contain incorrect and materially misstated balances. I recommended the following to the management:

- The manual journal entries prepared by any division including payroll be reviewed independently and approved for postings by the Executive Director Finance or his nominee;

- The Executive Director Finance should collate all journals and maintain a central filing in order of their batch numbers and posting dates;
- All journal entries posted should be clearly marked as posted; and
- Any new general ledger accounts created in the general ledger system should be properly approved by the designated senior management member appointed by the Managing Director and copies of such approval issued must be kept in the Finance Division.

The management responded as follows;

"The management is taking note of this recommendation regarding issues relating to accounting procedures and process where it is being reviewed in 2016 by the new management team. NBC maintain all new GL were approved by EDF. NBC was moving on a slow pace from manual to systemize hence most entries were initially posted or never reviewed since 2012."

Board Meeting Minutes

According to *Section 4(2)* of the *Broadcasting Corporation Act 1973 (NBC Act)* the Board was responsible for the affairs of the Corporation and *Section 14* states that the Board shall meet at such time and places and cause minutes of its meetings to be kept and forward copies of its minutes to the Minister. I noted the following issues in relation to the Board Meeting Minutes:

- No Board Meeting Minutes were held on record or were provided to me during the audit; and
- I was not provided with other statutory records including the common seal register, charges' register and directors' interest register.

The implications were that the failure to maintain statutory records was a breach of *Sections 4* and *14* of *NBC Act* and *General Order 23 - Record Management.* Also without the Board Meeting Minutes, I was unable to make reference to any Board Resolutions or Directives that may had significant financial and operational implications during the year under audit.

I recommended that the Corporation should maintain proper statutory records including its Board Meeting Minutes according to the requirements of the *NBC Act*. The statutory records must be produced to external auditors and other legitimate reviewers as part of a statutory requirement. The management responded as follows;

"The management is taking note of the recommendation done. NBC has full board appointed to manage the affairs of NBC. There were board meetings held as required but there was change in management including the Board Secretary that delays the process to deliver the board meeting minutes during the course of the audit (field work)."

Non-Maintenance of a Fixed Assets Register (FAR)

The Corporation had not maintained a Fixed Assets Register for some years now in order to properly record, account and control the movement of its assets, which included land and building, plant & equipment, furniture and fittings and motor vehicles. Accordingly, the cost of assets totaling K111,978,884 and accumulated depreciation balance totaling K75,528,522 were carried over in the general ledger since 2012,without any movements.

The issues were noted in my reports including disclaimer of opinion within those years.

Given the lack of a FAR, the assets additions, disposals, transfer of assets between stations and depreciation of the assets were not properly accounted for. Consequently, in the current year's audit, I was unable to determine the completeness, existence, accuracy and valuation of fixed assets at year end. Further, a full disclaimer of opinion was issued on the 2013 financial statements thus in the current year audit, I was also unable to quantify and confirm the opening balances of the fixed assets as stated in the general ledger. I was also informed that there was work done on setting up a FAR and updating of the assets but I was not provided any information since this will be taken up in the 2015 financial year.

The balances of the different categories of fixed assets in the trial balance (TB) were not supported by a fixed assets register. Therefore, I was unable to satisfy myself on the completeness, existence, accuracy and valuation of fixed asset balances at year end.

In addition, failure to maintain a Fixed Assets Register created a weak internal control environment which may result in assets being abused or stolen without being detected.

I recommended that management, as priority, should immediately set up a Fixed Assets Register by installing an off the shelf system relevant to the Corporation's assets. All existing assets categories must be updated through a thorough asset verification exercise. Furthermore, I also recommended the following:

- Perform detailed reconciliation of balances between the general ledger balances and new FAR, and also to ensure that the balances were adequately supported by proper documentation. Any differences noted to be cleared and also only assets with proper documentation to be updated in the new FAR;

- Costs of new assets purchased to be updated in a timely manner in both the new FAR and the general ledger to avoid omissions and errors including commencing depreciation on them;

- Disposals and write offs of significant value assets must be approved by the BOD and properly documented; and

- Perform monthly FAR reconciliations to match the general ledger amounts and have them reviewed by appropriate personnel for proper control and accuracy.

The management responded as follow:

"The management is taking note of the recommendations done and working on the attaché module to take this long time matter done. The fixed assets register will be done once the attaché module work in progress in 2016 and beyond is done. NBC still maintain and guard its assets well on ad-hoc basis to prevent wastage of resources at least."

Group Tax Liabilities

The Corporation had an outstanding group tax payable balance of K4,724,838 at the 2014 balance date. This balance had been accumulated since 2006 which the Corporation was yet to settle in full. On 13 January 2013, the Corporation received a demand letter from the Internal Revenue Commission (IRC) to settle outstanding Group Tax Liabilities of K1,821,219 which was related to 2006 assessments. As there were no proper reconciliations performed on the liabilities outstanding at year end including proper records and hence, I was unable to determine the completeness and accuracy of the K4,724,838 balance, and also to match them to which period the tax liabilities relate to. Further delay in settling the group tax balance would result in IRC imposing a penalty of 20% of the amount not remitted plus additional tax of 20% per annum calculated on a daily basis from the date the amount was due.

I recommended that management, as a matter of priority, should review properly its tax accounts to establish its tax position and hold conference with IRC management given the significance of the amount outstanding and to settle any tax liability in full with IRC. Management responded as follows:

"The management is taking note of the recommendations provided for action. NBC was faced with financial difficulties in that operating period but the salaries and wages bill were settled in 2015. NBC has settled this issue via arrangement with IRC to settle its Goods and Services Tax against Group Tax in 2016. A proper reconciliation is done in 2016."

22.3 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 2015 and 2016 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 report to the Ministers under *Section 8(4)* of the *Audit Act* on the Commission's financial statements for the year ended 31 December 2013 was issued on 14 March 2017. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Koki Market

The value of Koki Market taken over by the Commission in 1986 had not been included as an asset in the Balance Sheet of the Commission after the repealing of Koki Market Place Trust in 1986. The independent valuation conducted in 1994 valued the property at K3,440,000. Therefore, the asset balance was understated in the financial statements.

Valuation of Land and Buildings

The underlying records maintained in relation to fixed assets of the Commission indicated that the value of land and buildings was K21.622 million as at 31 December 2013. Land and building were not revalued since 1992. As a result, I was unable to ascertain that K21.622 million balance of land and building was fairly stated in the financial statements.

Payroll Expenses

The Accpacc system disclosed payroll expenses of K30,065,131 as at 31 December 2013. However, satisfactory records were not maintained to enable me to verify the completeness, existence and accuracy of these expenses due to the difficulty in accessing these records from Concept, the contracted payroll service provider. As a result, I was unable to satisfy myself as to the validity of the payroll related expenses.

Salary Clearing Accounts

Salaries clearing account had a total debit of K21,370,206 under the liabilities category. It appeared that this amount was not cleared to salaries expense account and resulted in understatement of salaries expenses and liabilities to the said amount respectively. Consequently, I was unable to satisfy myself as to the completeness and accuracy of this balance.

Provision for Employee Benefits

The Annual leave and long service leave provisions were both generated by the Concept Payroll System which amounted to total of K8,513,817. I was not able to verify the calculations of these provisions due to unavailability of appropriate supporting documentation. It appeared that the Concept Payroll records cannot be accessed by Human Resource or the Finance staff to provide the information. Therefore, I was not able to comment on the completeness and accuracy of the provision for annual leave and long service leave as at 31 December 2013.

Land and Garbage Rate Debtors

The Commission's TARMIS system was unable to separate the rate exempt institution and individuals. The provisions for doubtful debts were made to cater for the ratable payers and the defaulters. However, these estimates had no equitable basis. In addition, the information in the database were not verified to the physical building and properties. Therefore, the Land and Garbage debtors net balances of K25,344,559 and K25,235,901 respectively may not been fairly stated in the financial statements.

Land, Garbage and Sanitation Rates

The land, garbage and sanitation rates income were based on the data recorded in the TARMIS system. The calculation of the rates included non-ratable properties of institution that were exempted from paying these rates. This error was adjusted as part of the provision for doubtful debts. A provision of 60% for land rates and 60% for garbage rates were provided against the TARMIS generated report figures. These estimates had no valid basis. Therefore, I was unable to determine whether the land rates of K15,683,825 and garbage and sanitation income of K6,052,373 were fairly stated.

Capital Project (Road Works)

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

The carrying value of these assets at 31 December 2013 was K108 million which primarily included amount capitalized in 2005. I was unable to test check the accuracy of the depreciation charges for reasonableness as the lives of these roads were unpredictable given the extreme tropical weather experiences in NCD. I was therefore, unable to verify reasonableness of the corresponding yearly depreciation charge of K40.1 million and the adjustments of K24.2 million on the road assets and their carrying values as at year end.

Furthermore, significant spendings were made for Capital Projects in relation to constructions of new roads and road resealing during the year under review which amounted to K55.9 million. I was unable to review nor conduct in-dept tests on the additional cost of capital projects to ensure proper tendering procedures were followed prior to awarding of contracts due to absence of appropriate supporting documentations. Several requests were made for supporting evidence during the course of my audit but none were provided.

Due to this limitation, I was unable to provide a satisfactory comment that additional capital project contracts were awarded in adherence to tendering procedures and also unable to reasonably comment that significant variations payments made during the year under review were properly authorized by appropriate authority.

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 am unable to express an opinion on the financial statements of the National Capital District Commission for the year ended 31 December 2013."

23.2.2 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 National Capital District Commission for the year ended 31 December 2013 was issued on 14 March 2017. The report contained the following significant matters:

Payroll Functions

All payroll reports were generated from Concept Payroll System. During my review, it was revealed that Payroll manager and HR manager did not have access to the system to view and do reconciliation of certain payroll expenses. The payroll duties were outsourced to Concept Payroll which made it difficult for the payroll manager to access additional information.

It was difficult for the audit to obtain certain information such as reconciliation of allowances, gratuity, other fringe benefits, etc. paid to employees and senior officials. As a result, I was unable to satisfy myself as to the completeness and accuracy of payroll expenses recorded.

I recommended to management to ensure that all payroll transactions were reconciled on a regular basis. Also, the agreement with Concept Payroll must be reviewed to amend some clauses in the agreement to give ease access data when requested to download payroll records for regular verification and reconciliation purposes.

The management responded that they were addressing this through review of the Payroll Division and Concept agreement to have access to the payroll records.

Disaster Recovery Plan

The general controls for Information Technology (IT) emphasized in prior audits in 2008 to 2012 and up to the time of my review had not been addressed by the management. The IT manager claimed that Information Technology Department had a disaster recovery plan that guarantees the continuity of activities or operations in the event that the Commission encounters catastrophic disasters such as fire, earth quake and cyclones, etc. I was not given the opportunity to view the documented plan but was informed that the back-ups of data were done daily, weekly and on monthly basis. As advised, the disaster recovery plan had not been tested to ensure it was feasible. Without a proper working disaster recovery plan, the risk of discontinuity of activities increases in the case of unforeseen circumstances. This can endanger the continuity of the Commission's operations.

The management concurred and commented that a new team was recommended to review and address this issue.

Budget

In-depth test carried out on expenses incurred in 2013 revealed that the Commission had not adhered to the approved budgetary limit for 2013. Expenses incurred in 2013 were not within budget allocation for that year which resulted in expenses exceeding the budget by K85.4 million. Out of that, a total of K58.9 million comprised of payments that were not budgeted for in the year under review.

It appeared that there was no control in spending, even though payments were approved by the authorized personnel. I recommended management that necessary steps to ensure that expenses incurred were within the approved budget limits set for the particular year. If the expenses were inevitable, then the budget should have been revised or appropriate action taken during the year to accommodate the increase. The management responded below:

"Management has noted this and has bought and put in place procurement and budget accounting system in Accpac to monitor budget during the year. Budget is distributed or spread throughout the 12 months, and internal order requisition request & authorizations levels is used to managed the request with in the NCDC management hierarchy. An online system introduced in January 2016 will eliminate budget overruns and minimize possible over budget expenditure."

Tax on Allowances of Senior Management

Certain allowances such as domestic servant allowance, utility, telephone, entertainment and security were taxed at zero rate. These allowances were fully taxed in the hands of the employee when paid as cash allowance and non-taxable when paid on behalf of the employee by the employer.

Further, all allowances or benefits not mentioned under specific tax exemption paid in cash to or on behalf of employees were subject to tax unless a variation was issued by Commissioner of Internal Revenue Commission (IRC). Documentary evidence such as payroll report or pay slips was not provided to confirm if these allowances had been included in the payroll on fortnightly basis and were taxed accordingly or allowances were paid by employer directly to the service provider.

I recommended the Commission to obtain a variation from IRC for allowances paid to employees. All other allowances paid to employees and for which variation was not obtained must be considered as taxable for group tax calculation. The Commission responded that management was addressing this through review of the Payroll division and CONCEPT agreement to have access to our payroll records.

Internal Controls

In addition to the specific issues identified in the course of my audit, I also observed that most of the senior staff did not review the work of those at lower level position to ensure financial data were accurate before they were posted to the system. It was noted that many duplicate invoices and payments were identified in the course of my review due to lack of proper training and review of appropriate personnel. The records of payments to creditors were not up to date.

My subsequent payment test revealed that some payments were actually paid in the year under review but the records were not properly updated to reflect the payments. As a result, year-end balance was corrected by way of audit adjustment.

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

The National Capital District Commission had not prepared and submitted their financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December preceding, resulting in breaches of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995*.

23.3 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 Commission for the year ended 31 December 2014 had been 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 Commission for the year ended 31 December 2015 was in progress.

The financial statements of the Commission for the year ended 31 December 2016 had not been submitted 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* 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.

23A.1.1 Objective of the Company

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

23A.1.2 Functions of the Company

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

23A.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 2013, 2014, 2015 and 2016 for my inspection and audit, despite my reminders.

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

23B.1 INTRODUCTION

The National Capital District 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 National Capital Disrict Commission.

23B.1.1 Functions of the Company

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

23B.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 2013, 2014, 2015 and 2016 for my inspection and audit. The Commission advised that this entity was no longer in operation and in the process of deregistering from the Investment Promotion Authority (IPA).

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.* 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 inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2014 and 2015 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2016 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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

24.2.1 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 2013 was issued on 8 August 2016. The report contained a Disclaimer of Opinion:

"BASIS FOR DISCLAMER OF OPINION

Limitation of Scope – Cash at Bank – K14,030,525

During the audit, I noted that bank reconciliations were not properly prepared by the Commission. I was unable to verify the bank reconciliation statements of the Main Account operated by the Commission during the year. The Commission did not follow the correct procedures in performing the bank reconciliations of the main operating account. Further, the stale cheques totaling K567,818 of the main account was also not correctly adjusted and reflected in the account. Consequently, I was not provided with all the necessary information for me to carry out my audit procedures. As a result, I was unable to confirm the reconciled cash book balance of K14,030,525 stated as at 31 December 2013.

Limitation of Scope – Cost Centre Accounting Information

During the audit, I noted that the accounting information and the bank reconciliations from the National Film Institute, the National Performing Arts Troupe and Institute of PNG Studies were not provided to me by the Commission for my examination and inspection. I was unable to verify the expenditures (acquittals of payments) and other documentary evidences including the bank accounts maintained by the National Film Institute, National Performing Arts Troupe and Institute of PNG Studies during my review. Consequently, I was not provided with all the necessary information to enable me to carry out my audit procedures to confirm whether proper accounting records had been maintained by the National Film Institute, the National Performing Arts Troupe and Institute of PNG studies.

Limitation of Scope – Fixed Assets – K5,234,222

In my review of the Commission's Fixed Assets Register, I noted that the Commission had not maintained a Fixed Asset Register. I also noted that the Commission's acquisitions and disposals of assets were not properly accounted for. Since fixed assets of the Commission are susceptible to theft and misuse, the Commission must have appropriate control mechanism in place to safeguard these assets. As a result, I was unable to verify the value and existence of fixed assets totaling K5,234,222 disclosed by way of notes in the financial statements.

Accounting Control System

The Commission since its inception had been recording and maintaining its financial information on a manual cash book and spreadsheets. Receipts and Payments of the Commission were recorded manually using large cash register books and spreadsheets. Due to inadequate manual controls, the financial statements produced from manual cashbook and ledgers, cannot be relied upon.

As a result, I was unable to obtain comfort over the internal control environment and the accuracy and completeness of the account balances stated in the financial statements.

DISCLAIMER OF 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 am unable to express an opinion on the financial statements of the National Cultural Commission for the year ended 31 December 2013."

24.2.2 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 2013 was issued on 8 August 2016. The report contained the following observations:

Non Maintenance of Travel Advances Acquittal Register

The Commission had not maintained a proper Travel Advances Register for all duty travels and related expenses. Consequently, the Commission had breached the *Public Finances (Management) Act* and the *Financial Management Manual Part 20 paragraphs 11.2 & 12.10* which states that cash advanced to officers on official duty travels must acquit travel advances within 14 and 7 days for international and domestic travels respectively on return from duty travels. In the absence of a Travel Advance Register, the Commission was unable to monitor the acquittals promptly.

Policy and Procedural Manual

During my review, I noted that the Commission did not have any policy and procedural manual for its financial and operational areas to guide its operations. The policy and procedural manuals serve as a governance guide to assist staff performance and may be used as a reference material at all levels to execute their duties and responsibilities in accordance with the guideline established via the manual. This would promote Good Corporate Governance and a standardized practice for executing transaction in uniformity and in accordance with Public Finances Management Manual and General Orders.

24.3 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 2014, 2015 and 2016 for my inspection and audit despite numerous reminders.

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 2016 was issued on 11 May 2017. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Salaries and Allowances

The Commission has disclosed its Salaries and Allowances as K1,097,986 at 31 December 2016 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 K1,097,986 disclosed 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 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 2016 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 2016 was issued on 11 May 2017. The report contained the following significant matters:

Finance and Administration

During my examination, I noted that the Commission was unable to undertake effective finance and administration tasks due to lack of capacity. I recommended that the Commission should recruit competent staff to assist the two (2) current finance and administration officers and also provide training to ensure that the officers were 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 Commission. The management responded to my observation as follows;

"We acknowledge this weakness and have since advertised and awaiting the administrative department (DPM) to complete the process of appointing officers with suitable skills to perform the duties. This will also provide an opportunity for more effective segregation of functions."

Fixed Asset Register

It is a requirement under the *Public Finances (Management) Act, 1995* and the *Financial Management Manual (Section 12)* for the Commission to properly maintain and safeguard assets under its custody. My review of the Fixed Assets revealed that the Commission did not maintain a proper Fixed Assets Register for all its assets for the year under review. The Register did not capture the identification numbers to identify individual assets and there was no physical stock take undertaken during the year under review. As a result, I was unable to determine the fair value, the state, and the location of the assets.

I recommended management to take 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 corrective measures will now be undertaken."

Staff Personnel Files

My review of the personnel emoluments revealed that staff personnel files were not properly maintained. I noted that records such as salaries and allowances variation advices, tax declaration forms and appointment letters were not on file for my verification. The Commission also did not maintain control records such as 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 management to update all Staff Personnel Files on a regular basis for ease of reference and the management responded as follows;

"We acknowledge the issue and have since advertised and awaiting Department of Personnel Management (DPM) to complete the process of appointing an experienced HR officer."

Group Tax Liability

During my review of the Salaries as well as the personnel emoluments revealed that casual wages were paid out from the Commission's Operational bank account. Based on the Commission's fortnightly calculations, a total of K32,522 had been deducted for tax in 2016. This tax liability was withheld by the Commission but had not been remitted to the Internal Revenue Commission and disclosed as a liability.

I recommended management to comply with respective tax provisions and the management responded as follows;

"*We have been complying but there were no mechanism/tax coding in place with the IRC to capture tax payment from NEFC. We acknowledge the issue and agree to review for proper controls and will comply to correct this weakness."*

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 of K453,346 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 (7) days of return from duty trips for domestic travels and within fourteen (14) days for overseas travels.

The management responded to my observation as follows;

"Some hotel and hire car receipts for the regional workshops are adding to the issues raised. Also Officers have not properly acquitted advances despite ongoing follow ups by the Accounts/Records Management Officer. 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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

26.2.1 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 2014 was issued on 25 November 2016. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Land Titles

I was unable to sight and verify the Authority's *Certificates of Titles* of Lands held throughout Papua New Guinea. I understand that the Authority was in the process of compiling all their landholdings and to ensure that appropriate *Certificate of Titles* are in place. The available documentation was not sufficient to allow me to perform my audit procedures and satisfy myself that the Authority holds appropriate titles to land recorded in statement of financial position at K16,000,001 (2013: K16,008,001).

Long Term Loan Transferred to Equity

The statement of changes in equity includes a balance of contributed equity amounting to K19,139,858 which was transferred to equity during the year ended 31 December 2006. I understand that the Independent State of PNG (the "State") negotiated the relevant loan with the Asian Development Bank ("ADB") and then signed a subsidiary loan agreement with the Authority. I was advised that the loan was completely drawn down in 2003 and was forgiven by the State. On this basis the loan was classified to equity. I was not provided with the subsidiary loan agreement or documentation to support the Authority's position that the loan was forgiven and is no longer payable. In the absence of such documentation, I am unable to satisfy myself as to the validity, completeness and classification and presentation of the balance as an equity item rather than a loan item.

Validity of Project Development Funds (PDF) Expenses

Note 10 to the financial statements disclosed Public Investment Program expenses amounting to K25.55 million (2013: K63.1 million) and included are the following expenses;

- Project Development Funds (PDF) of K8.295m (2013: K18.2m).
- PSID Cooperatives K0.322m (2013: K0.925m).
- PSID Provincial Assistance K0.894 (2013: K0.518m).

The state of the records was such that I was unable to successfully validate the linkages between expenses recorded in the general ledgers and the actual projects funded.

In addition, I was not provided with the following;

- Documentation in connection with selection of grant beneficiaries.
- Evidence of project evaluation and monitoring of activities.
- List of all projects funded and that of the successfully implemented.

Furthermore, an external independent audit commissioned by the Authority in April 2014 concluded that PDF projects and grants lacked proper controls and monitoring procedures and were subject to abuse.

As a consequence, I could not satisfy to the validity of the Project Development Funds (PDF) expenses incurred during the year ended 31 December 2014 and the related comparative balances for the year ended 31 December 2013.

QUALIFIED OPINION

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements of National Fisheries Authority for the year ended 31 December 2014:

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 the exception of instances of non-compliance described under Other Matters, the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act 1995."*

26.2.2 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 2014 was issued on 25 November 2016. The report contained the following significant matters:

Financial Statements

The National Fisheries Authority had not prepared and submitted their financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December proceeding, resulting in breaches of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995.*

Unsuitable Accounting Software

The National Fisheries Authority had been using the MYOB software as its accounting system since it was established. This accounting software was generally for small and medium sized enterprises with simple reporting requirements. This was not suitable for lager entities such as the NFA which operates in multiple locations with a more sophisticated reporting and management information needs. I recommended to management for a strategic review of NFA financial systems to consider a more appropriate Enterprise Resource Planning (ERP) system that integrates all the management information needs for NFA. The management responded as follow:

"Software has been purchased however installation and training were temporarily stopped as current server and SQL needs to be upgraded to at least version 12. Target date will be 2nd quarter of 2017."

Concentration of Approval Function to Managing Director

During my review of procurement procedures, the Managing Director and in the absence of the Managing Director (MD) the Deputy Managing Director was required to approve all purchase requisitions between K1,000 to K100,000. An examination of a sample of requisitions identified instances where the MD had approved the purchases without any evidence of review on the requisitions by the originating unit managers. This existing process concentrates the approval function to the top executive whose role should be driven towards corporate level control and monitoring activities rather than operational activities.

I recommended to management that an appropriate Delegation of Authority limit should be established and set in the operating policies and procedures to ensure that all requisitions were reviewed and approved by line managers and executive managers where applicable before escalating to the Managing Director when required. The management concurred to my recommendation.

Lack of Internal Audit Functions

I noted that an Internal Audit Division was included in the Authority's organizational structure but the unit had not been established as yet and the Internal Auditor position had remained vacant for a number of years. I brought this issue with the management and they responded that this Division was budgeted but it didn't push through as NFA was fixing its structure hence recruitment was on hold. Once the structure is approved they would proceed with the recruitment.

Procurement Procedures in Expenditures

During my review on expenses and project expenditure, I noted the following issues;

- A lack of discipline in documentation – maintaining a trail of receipt of goods and services paid to suppliers. NFA may possibly be paying for goods and services it had not even received. This was in spite of the payment vouchers specifically requiring this aspect to be signed off in many instances of non-compliance with procurement procedures where payments made on the basis of usually 1 written quote or 2 rather that 3 written quotes as required.

- Finance & Administration – a review appears superficial and a mere formality. There was lack of scrutiny on whether or not funding was available, within budget and tracking against was not monitored.

I brought these issues to management and they responded that the Authority was gradually implementing.

Procurement Procedures in Public Investment Program

I noted in the Public Investment Program, there was lack of management and financial control specifically in the projects under the following:

Project Development Funds (PDF) – This program had a total of K38.5m in the last three (3) years that have not been properly recorded and monitored by the Project Division of the Authority. There was no control system to register the number of projects and verification of such grant couldn't be demonstrated.

Provincial Support & Industry Development - Cooperatives – Relates to NFA grants to the cooperatives which totalled K2.9m in the last three years. There was no register of the number of cooperatives that have been supported by this funding and let alone no monitoring process of this funding to the Cooperatives.

Provincial Support & Industry Development – Provincial Assist – The provincial assist provided by NFA had accumulated to about K25.7m in the last three years. This included the coastal and highlands provincial support projects that did not appear to be proper monitoring or appropriate financial control of the funds.

I recommended to management that controls and policies surrounding these areas must be reviewed and strengthened to avoid further wastage of financial resources. The management agreed to my recommendation.

Acquisition of Tablets

I noted that the Authority had purchased 100 tablets for K187,000 from a fishing company (United Seafood Limited). These tablets were meant for observers, however there were more tablets purchased than the number of observers. As a result, the tablets that remained after distributions to observers were sold to staff at a lower price.

I recommended to management that they need to observe appropriate procurement policies and procedures by enforcing a three quotes policy and review and approval should all be part of this process to ensure ethical conduct and value for money purchasing principles are applied. The management agreed to my recommendation and will implement immediately.

Other weaknesses I noted during my review are the following:

- Control over routine travel was weak.
- Travel Advances acquittal process not effective.
- Sighted the three (3) patrol boats but could not confirm ownership since marine registrations were not provided.
- Payroll files were not updated timely.
- High level of staff advances.

26.3 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 2015 was in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

27. NATIONAL GAMING CONTROL BOARD

27.1 INTRODUCTION

27.1.1 Legislation

The National Gaming Control Board was established under the *Gaming Control Act 2007*. The Act came into operation on 1 May 2007. The objective of the *Act* is to provide for the control of all forms of gaming; including lotteries, games and wagers, gaming machines and casinos and for their operations, and for related purposes. This Act repealed the *Gaming Machine Act 1993*.

27.1.2 Functions of the Board

The principal functions of the Board are to:

- Promote probity and integrity in gaming;
- Maintain the probity and integrity of persons engaged in gaming in the Country;
- Promote fairness, integrity and efficiency in the operations of persons engaged in gaming in the country;
- Reduce any adverse social impact of gaming;
- Promote a balanced contribution by the gaming industry to general community benefit and amenity; and
- Consider applications for and where appropriate grant permits and licenses under this Act and to control the operations of gaming machines as specified in this Act.

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 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 2015 had been completed and results were being evaluated.

The Board had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

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 towards 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 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 2015 had been completed and results were being evaluated.

The Fund had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

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, 2014, 2015 and 2016 for my inspection and audit despite numerous reminders from my Office.

28.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

28.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Corporation's financial statements for the years ended 31 December 2011, 2012 and 2013 were issued on 11 August 2016, 21 March 2017 and 24 April 2017 respectively.

The reports contained similar Disclaimer of Opinions, hence, only the 2013 report is reproduced as follows:

"BASIS FOR DISCLAIMER OF OPINION

Management Declaration of Disclaimer on Financial Statements

The management made a declaration on the status of the preparation of the financial statements. The management declared deficiency in the preparation of the financial statements of the Corporation due to ongoing major internal control lapses including lack of proper accounting system, lack of proper record keeping, nonexistence of accounting manual, absence of fixed assets management and registers and lack of debtors control system.

The declaration indicated that the Directors and the management had failed to comply with the requirements of the *Public Finances (Management) Act 1995 (PFMA)* by not maintaining proper records and books of accounts to enable me to conduct the audit in time as required by *Section 63(4)* of the *PFMA*.

Limitation of Scope due to Opening Balances

My Report for the prior year, 31 December 2012 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of fixed assets, trade payables, provisions and other liabilities, cash and cash equivalents, advance from PNG government and government equity. Since these opening balances entered into the determination of the results of operations and cash flows of the Corporation for the financial year ended 31 December 2013, I was unable to determine whether adjustments to the results of operations and cash flows might have been necessary for the year then ended.

Revenue and Expenses

The Income Statement reported total revenue of K18,977,425, total expense of K13,978,665 and a net profit of K4,998,760 for the year ended 31 December 2013. However, I could not confirm these figures as accurate and fairly presented operating results for the 2013 financial year as there was no reliable system in place to ensure that all billed amounts in rental, mortgage and other revenues were collected and properly accounted for through a debtor's ledger system. In addition, schedules and accounting records for all the revenue and expense account balances reported in the financial statements were not made available for my review. I also noted serious internal control weaknesses with payment procedures that could affect the balance and classification of various expense items stated in the financial statements.

Further, included in *Note 11* of the financial statements was an amount of K11,283,770 stated as Proceed from Disposal of Properties. This figure could not be confirmed as documents and records in respect of the sale of the properties were not made available for my review. As a result, I was unable to confirm the accuracy and completeness of the revenue and operational costs as disclosed for the year ended 31 December 2013 in the income statement.

Cash and Cash Equivalents

The Cash and Cash Equivalents balance reported as at 31 December 2013 was K3,782,856. There was no bank reconciliation statements made available for my review. Therefore, I was unable to verify and confirm the accuracy and existence of the cash and cash equivalent balance as at 31 December 2013.

Trade Receivables

The Trade Receivables had nil balance as at 31 December 2013. This was a major omission as the Corporation would have debtors while it operates property rentals and sales schemes. A proper debtors' ledger system had not been maintained from which a reliable debtors' balance could be obtained.

Fixed Assets

The carrying value of Properties, Plants and Equipment as at 31 December 2013 was K11,731,247 as reported in the balance sheet. A fixed assets register was not maintained and listings and schedules were not available in support of the carrying value. A physical stock-take was not carried out on fixed assets and periodic valuations were not done on properties owned by the Corporation. As a result, I was unable to confirm the completeness, existence, valuation and accuracy of the fixed assets balance as at 31 December 2013.

Investments

The National Housing Estate Limited (NHEL), a subsidiary of the National Housing Corporation was established and incorporated in 2007. However, the Corporation had not taken up the value of the investment in NHEL in the financial statements for the year ended 31 December 2013.

Accruals, Provisions and Other Liabilities

The balance for Accruals, Provisions and Other Liabilities as at 31 December 2013 was K8,769,700 and Trade Payables K126,893 as stated in the balance sheet. According to *Note 9* of the financial statements this value consisted of Accrued Expenses (K258,080), GST Refund (K469,528), Group Tax Provision (K9,769,120) and Employee Benefits (K298,812).

There was no acceptable accounting records, documents and schedules available to substantiate the balances presented in respect of GST Refund, Group Tax Provision and Payroll Liabilities. As such, I was not able to verify and confirm the existence and accuracy of the balances. Further, unpaid employee superannuation contributions have not been taken up in this balance despite an amount of K2,670,450 was taken up in the 2010 financial statements.

Government Advance

The financial statements reported a balance of K7,779,200 as Government Advance as at 31 December 2013. No acceptable record, document or confirmation was available to confirm this balance.

State's Equity

An amount of K27,668,800 was stated as balance of State's Equity as at 31 December 2013. There was no acceptable record, document or confirmation to confirm the accuracy and existence of this balance as at year end.

Historical Balancing

An amount of K27,994,279 (2012: *K26,364,864*) was reported in the Balance Sheet and Statement of Changes in Equity as Historical Balancing. *Note 2.3* of the financial statements disclosed that the balance was MYOB reconciliation items for posting to correct accounts. The historical balancing had been reported in the financial statements for a number of years without taking necessary steps to reconcile and allocate to correct accounts. Therefore, I was unable to determine the validity of the amount reported 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 and accordingly I am unable to and do not express an opinion on the financial statement of the National Housing Corporation for the year ended 31 December 2013."

28.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Sections 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the Corporation for the years ended 31 December 2011, 2012 and 2013 were issued on 14 August 2016, 21 March 2017 and 24 April 2017 respectively. The reports contained similar observation, hence, only the 2013 observation is reproduced as follows:

Non Compliance with *Public Finances (Management) Act*

The audit of the 2013 statutory financial statements commenced in August 2016 which was after the deadline of 30 June 2014. As such, the Directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act 1995* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year.

Financial Statements

The financial statements of National Housing Corporation for the financial year ended 31 December 2013 was not prepared from a properly maintained accounts and records and lacked sufficient supporting documentation and evidence. The errors, omissions, irregularities and misstatements were so significant which formed the basis for a Disclaimer of Opinion in my *Section 8(4)* Report on the 2013 financial statements.

Internal Control Environment

The internal control weaknesses in management accounting, record keeping and payment procedures had negatively impacted the reliability, validity, completeness and correctness of the financial information disclosed in the financial statements. I noted following weaknesses in relation to internal control environment:

Revenue and Account Receivables

Controls over billing, collection of revenues, and accounting of debtors and revenues had been very deficient. The Corporation's incomes were not properly managed and were exposed to abuse and fraud. The debtors' subsidiary ledger system was not properly maintained and lacked integration with the general ledger.

I recommended to the management to create a debtors subsidiary ledger system to integrate with billing and cash receipting system and general ledger.

Fixed Assets Management

The Corporation did not maintain a Fixed Assets Register in 2013. This was a very serious internal control lapse. The Corporation without having a Fixed Assets Register posed a high risk for loss of its properties. Also, valuation of the properties was not done periodically to establish fair values at any given point of time.

I carried out property inspection at NHC Head Office, Lae, Madang and Goroka and noted that the Corporation owns and had in its custody properties with values that can run into hundreds of millions of Kina.

I recommended the management to maintain a Fixed Assets Register to form evidence of ownership and control over them and to ensure their values at any given point of time are fair and reliable.

Payment Procedures

My review of the payments of the Corporation for the year 2013 revealed the following discrepancies:

a) The Corporation issued many cashable cheques in 2013 to its staff members and other service providers. From the sample of 111 payments vouched, 86 payments totalled K743,130 were issued in "Pay Cash" cheques. Issuing cashable cheque promotes fraud, abuse and corruption and was not an acceptable business practice;

b) Five (5) payments totalled K145,500 were made to three different companies. The cheques were issued in the form of "Pay Cash" and not in their respective companies' names. Of the five (5) payments made, four (4) of them related to invoices dated back to February 2008;

c) A cashable cheque valued K29,800 was issued after alteration being made to the original invoice amount of K19,800. Also, another invoice was altered upwards from its original value of K19,200 to K29,800 and finally paid at K30,000;

d) Two (2) cheques totalled K50,000 were made to the former Chairman of the Corporation, being an Ex-Gratia payments. Powers of approving ex-gratia payments were vested with the Secretary for Finance, Minister for Finance and NEC. However, approval from these authorities were neither sought nor granted;

e) Three (3) cashable cheques totalled K21,500 were paid to an officer of the Corporation. The amount paid was claimed for vehicle allowance in lieu of providing a fully serviced vehicle (car) for 62 days at the rate of K300 per day by the officer.

However, the actual amount paid was above the original invoice of K18,600. Also, the payment made was irregular and did not comply with the Salaries and Conditions Monitoring Committee determinations;

f) In one instance overtime allowance of K1,000 each was paid to thirty-seven (37) staff members including the Senior Executives of the Corporation. There was no proper basis for paying the Senior Executives. Also, it is improper for Senior Executives to approve overtime payments for themselves;

g) An officer who had been terminated from employment was paid K10,000 as part payment of K25,000 awarded for damages caused as a result of the employment termination. I noted that the compensation award of K25,000 was agreed through verbal discussion between the officer and management of the Corporation. I could not obtain legal evidences to determine validity and appropriateness of the management making the award and paying the claim;

h) I noted that a motor vehicle was hired from a company at the rate of K1,000 per day between January and March 2013. Three (3) payments totalled K99,000 was made in April 2013. Hiring of vehicles in Port Moresby at such an high rate of K1,000 per day was wasteful and unwarranted. The K99,000 spent could have been used to buy a new vehicle;

i) A total of K19,000 was paid as entertainment allowances to the Managing Director in "Pay Cash" cheques. Entertainment allowances of Chief Executive Officers of all Statutory Authorities come as part of their salaries which are paid fortnightly. No acquittals were available for my review to determine the validity and appropriateness of the payments;

j) Sixteen (16) payments totalled K127,000 had no payment vouchers and supporting documents on file; and

k) Lack of proper record keeping and non-provision of all the necessary information requested including staff structure, SCMC approved staff celling, and the contract officers' terms and conditions of employment had prevented me from performing my audit procedures on payroll and related payments.

Sale of Properties

The Corporation in 2013 sold some of its properties with a total value of K11,283,770 as disclosed in the income statement. Documents and records in relation to sale of the properties including tender documents, contract of sale, and settlement statements were not provided for my review. Record keeping was very deficient and the management was unable to retrieve and provide all the necessary information and documents on the properties sold.

Governance

a) Minutes of Board Meetings

I was not provided with minutes of all Board meetings held in 2013. Therefore, I was unable to determine the implication of the decisions made by the Board on the financial statements and affairs of the Corporation.

b) Internal Audit

My review of the internal audit function noted that the Internal Audit Unit had not fully implemented its work plans partly due to staff constraints. Also, work plans performed in 2013 were on ad hoc instructions received from the top management.

The matters contained in this report had been conveyed to the management on 3 June 2016 and no responses had been received from the management.

28.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation had not submitted the financial statements for the years ended 31 December 2014, 2015 and 2016 for my inspection and audit.

29. NATIONAL INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY (NICTA)

29.1 INTRODUCTION

29.1.1 Legislation and Objectives of the Authority

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 *National Information and Communications Technology Authority Act 2009.*

29.2 AUDIT OBSERVATIONS AND RECOMMENTATIONS

29.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2013 and 2014 were issued on 27 July 2016 and 28 July 2016 respectively. The reports contained similar Disclaimer of Opinions, hence, only the 2014 report is reproduced as follows:

"BASIS FOR DISCLAIMER OF OPINION

Opening Balances

The opening balances could not be confirmed as correct due to errors and material limitations of scope expressed in my previous audit reports. As a result, I was unable to express an opinion on the opening balances for the year ended 31 December 2014, a number of which enter into determination of the result and cash flows for the year ended 31 December 2014.

Adjustment for Unreconciled Item

The statement of comprehensive income includes the impact of adjustments amounting to a net charge to the profit and loss account of K1.2 million as a result of reconciliation of a bank account. I was not provided with sufficient evidence to support the recording of the correcting entry to profit and loss and was unable to conclude on the appropriateness of the accounting treatment applied.

Trade Debtors

The statement of financial position at 31 December 2014 includes total trade debtors of K17.7 million, representing a gross balance of K25.4 million net of provision for doubtful debts of K7.7 million. The gross trade debtors figure includes K6.3 million which is not recorded in the trade debtors subsidiary ledger and for which I have been unable to obtain sufficient appropriate audit evidence to support its validity and collectability. In addition, I was not provided with sufficient appropriate audit evidence to demonstrate the appropriateness of the doubtful debts provision recognised as at 31 December 2014. As a result of these matters, I was unable to verify the existence, accuracy and valuation of trade debtors including the appropriateness of the provision for doubtful debts.

Land and Buildings Titles

The statement of financial position at 31 December 2014 includes land and buildings totaling K20.3 million. I was not provided with sufficient audit evidence supporting the Authority's title to the properties. In addition, I was informed by management that there was an ongoing dispute over the legal ownership of property with a carrying value at 31 December 2014 of K6.5 million. As a result of the above matters, I was unable to conclude on the appropriateness of the inclusion of land and buildings in the statement of financial position.

Fixed Assets Revaluations

The statement of financial position at 31 December 2014 includes an asset revaluation reserve of K18.7 million. I was not provided with sufficient audit evidence to support the revaluation of fixed assets performed in prior periods. As a result, I was unable to conclude on the valuation of land and buildings and the associated carrying value and the accuracy of the related asset revaluation reserve.

Investment Property

The statement of comprehensive income for 2014 included income derived from the rental of certain properties within land and buildings in the statement of financial position. To the extent that the properties were held to earn rental income or derive capital gains they met the definition of investment property. I was not provided with sufficient audit evidence to support the basis on which properties earning rental income have remained classified as land and buildings in the financial statements.

Provision for Long Service Leave and Annual Leave

Included in the statement of financial position at 31 December 2014 were provisions for annual leave and long service leave totaling K1.2 million. As a result of issues experienced by the Authority in generating accurate leave liability records, I was not provided sufficient appropriate evidence to enable me to conclude on the completeness and accuracy of the recorded provisions.

Other Matters

The values attributed to the components of the financial statements referred to above were significant to the financial statements and were of fundamental importance to the preparation of the financial statements. As a result of the matters above, I was unable to determine whether any adjustments were found necessary to the statement of financial position at 31 December 2014, or the statement of comprehensive income, statement of changes in equity or the statement of cash flows for the year then ended.

In view of the significance of these matters and other areas in which I was unable to obtain sufficient and appropriate audit evidence, I was unable to form an opinion as to whether or not the financial statements presented a true and fair view of the financial position of the Authority as at 31 December 2014 and its financial performance and cash flows for the year ended on that date.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs above, 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 National Information & Communication Technology Authority for the year ended 31 December 2014."

29.2.2 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 Authority for the years ended 31 December 2013 and 2014 were issued on 27 July 2016 and 28 July 2016 respectively. The reports contained similar observations, hence, only the 2014 report is reproduced as follows:

1. Reconciliation of General Ledger Account Balances

While most of the general ledger accounts were examined with appropriate general ledger reconciliations, I noted that a few significant accounts like trade receivables and trade payables were left unreconciled at the end of the year. Periodic reconciliation of general ledger accounts assists in detecting unrecorded transactions which may materially misstate the financial statements. I recommended the management to conduct general ledger reconciliations on a periodic basis across all general ledger accounts and ensure that variances were investigated and resolved on a timely manner. The management noted my comments and assured me to take remedial measures to ensure all accounts were reconciled.

2. Policy on Accounts Receivable Provisioning

I noted that the Authority recognised a general provision for past due and long outstanding trade receivable balances. Recognition of a specific provision based on impairment review and recoverability of specific accounts receivable balances was not performed. I informed management that creating a general provision alone may not completely identify outstanding balances that were deteriorating and may no longer be recovered. Further, doubtful debts recognised may not clearly capture amounts that should be provided for, thus, may result in over or understatement of trade receivables and revenue for the year. I recommended that management determine and recognise a specific provision through assessment per customer balance. The management noted my comments and were working on implementing my recommendations.

3. Other Weaknesses

Other weaknesses noted were as follows;

- Certain cash receipts were not allocated specific accounts receivable invoices
- Lack of segregation of duties in the payroll process.

29.3 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 the Authority for the year ended 31 December 2015 was in progress.

The financial statements of the Authority for the year ended 31 December 2016 had been submitted and arrangements were being made to commence the audit shortly.

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 AND RECOMMENDATIONS

30.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2015 and 2016 were issued on 26 September 2016 and 15 June 2017 respectively. The reports did not contain any qualification.

30.2.2 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 Authority for the years ended 31 December 2015 and 2016 were issued on 26 September 2016 and 15 June 2017 respectively. The reports contained similar significant matters, hence only the 2016 report is reproduced:

1. Trade Debtors

My review of the Authority's trade debtors of K18,573,884 as at 31 December 2016 revealed that a large number of debtors amounting to K2million were outstanding for more than 90 days. I further noted that most of these long outstanding debtors may not be collected. I brought this matter to the attention of the management and the management responded as follows;

"We developed a debt management policy to address the debts that are falling behind the due dates for collection and allow provision for doubt-full debts. One of the outcomes of the policy is to enforce the relevant legislation on detaining vessel for non-payment of levies. The enforcement unit will be created within the legal department to enforce the law. A warning letter to major clients informing them of the Authority's intention will be disseminated to the industry. We expect this drastic measure will force many shipping agents/owners/masters to pay the levies on time."

2. 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 the management and the management responded as follows;

"We will institute process to address the management of the Authority's assets. A fixed assets management policy and procedures will be formulated and adopted by the Authority. An audit of the current asset listing will be executed to establish the viability of the assets. We are very much aware of old assets that are still on the list and are fully depreciated and obsolete. We anticipate a clean-up in 2017 and appropriate asset listing for deletion in the Asset Register will be tabled for Board's approval."

3. Staff Salary History Cards

During my review of the personnel files for certain selected officers of the Authority, I observed that the Authority did not maintain salary and leave history cards for employees in their respective personnel files. The salary and leave history cards should show an updated base salary, allowances, gratuities and the updated leave records for each employee. Proper filing of employees' salary and leave history cards would enable the payroll staff to easily access the information and calculate the staff entitlements correctly including provisions for leave entitlements. As a result, I was unable to confirm the salary and allowances and the leave records from their personnel files.

I recommended the Authority to maintain staff salary and leave history cards for each employee in their personnel files as a control mechanism to enable the payroll staff to easily access the information and correctly calculate the staff entitlements. Further, for these files to be regularly updated upon changes/variations on each individual staff files.

Management responded to my concern as follows;

"Management acknowledged that due to lack of staffing in HR, management will immediately address this issue and update staff personnel files with the recruitment of additional HR personnels."

4. Travel Acquittal Register

I was not provided with a Travel Acquittal Register for examination despite my requests during my audit review. Although the Authority maintains files for its acquittals, it was not able to provide an Acquittal Register to show details of all acquittals for the duty travels for the 2016 financial year.

As a result, I was unable to determine and verify the amount of funds acquitted for duty travel related expenses and how much was still outstanding as at the balance date.

I recommended the Authority to maintain a proper Acquittal Register that would show a summary of details of all duty travel acquittals and how much was outstanding at year end. I brought this query to the attention of the management and they responded to my query as follows:

"Management acknowledged this and will engage accounts staff to maintain all acquittal register both international and domestic separately going forward."

5. Board Meetings

My review revealed that the Board only held two (2) meetings during the year under review. However, the *National Maritime Safety Authority Act, 2003* stipulates that the Board shall meet as often as the business of the Authority requires, and at such times and places as the Board determines, or as the Chairperson directs, but in any event shall meet not less frequently than once in every three (3) months or four (4) meetings per year. I drew this to the management and the management responded to my query as follows:

"In 2016, there was no quorum to have full four (4) board meetings in the year except two meetings. That was due to three vacancies in board membership, whilst there were instance of postponing meetings due to lack of quorum as some of the members had to send in their apology to attend to other matters.

Management has instigated the process to appoint new board members in 2016 and expects a full board by mid-year 2017. In 2017 the board meetings requirement will be met."

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 AND RECOMMENDATIONS

31.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Museum's financial statements for the year ended 31 December 2014 was issued on 27 March 2017. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Accounting System

The Museum, despite my recommendations, had not maintained a proper accounting system for a systematic preparation of financial statements. Consequently, the financial statements, trial balance and the cash book presented for my review could not be relied upon. The Museum did not maintain necessary accounting records and documents such as receipt books, 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 and MYOB which were used by the Museum as a 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

The Museum was required to maintain necessary accounting records under *Sections (62 - 64)* of the *Public Finances (Management) Act, 1995*. During my examination, I observed that there were significant variances between the financial statement balances and general ledger balances. Further, some payroll 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 – K1,588,025

The Museum disclosed its Bank Balance as K1,588,025 at 31 December, 2014. During my examination, I was not able to reconcile and verify the year end balances of bank accounts as the bank statements have not been provided for my review and confirmation. Furthermore, 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 K1,588,025 disclosed at the year end.

Fixed Assets – K7,527,735

The Museum did not properly maintain and update its Fixed Assets Register with the details of identification or serial/code numbers to enable me to locate and verify the existence of the assets. I was advised that no proper stock take or physical count of assets was conducted during the year under review. As a result, I was unable to determine the condition and existence of various assets. In addition, I was not provided with revaluation certificates of buildings and title deeds of land owned by the museum; therefore, I was unable to determine the ownership and valuation of these assets.

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 proper inventory records, the accuracy, completeness and existence of these collections could not be verified.

Internal Receipts – K86,680

My review of the Internal Receipts Account revealed that there was lack of control over internal receipts. There were no records or receipts file to keep the internal receipts document files such as, invoices, receipts books, deposit books and other documents. Furthermore, I was not provided any schedules for the Internal Receipts Account for the year under review.

In the absence of the above documents, I was unable to confirm the correctness and completeness of Internal Receipts Accounts as disclosed in the financial statements at year end.

Wages – K469,850

During my review, I was unable to place any reliance on the total wages of K469,850 disclosed in the financial statements as the amount lacked any form of audit trail to properly trace the aggregate sum to supporting schedules to confirm the break-up of the figures. Despite my requests and several reminders, no schedule was provided for me to confirm and verify the year-end balance of K469,850.

Limitation of Scope – Unallocated Expenditure – K1,963,012

The Museum had disclosed K1,963,012 as unallocated expenditures in its financial statements for the year ended 31 December, 2014. During my review, the Museum was unable to provide the necessary supporting documents to substantiate the above payments. As a result, I was unable to confirm whether or not the above expenses were incurred for the benefit of the Museum.

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 audit evidence and accordingly, I am 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 2014."

31.2.2 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 Museum for the year ended 31 December 2014 was issued on 27 March 2017. The report contained the following comments:

Non-Submission of Financial Statements

The Museum had not prepared and submitted its financial statements to my Office before 31 March, 2015 to enable me to conduct the audit and issue the report within the timeframe stipulated by the Law. Consequently, the Museum had breached *Sections 63 (2)* and *63 (4)* of the *Public Finances (Management) Act 1995.*

Acquittal of Travel Related Expenses

During my examination, I noted that the payments relating to Travel and Subsistence totaling K322,837 were paid to staff during the year. This amount was not acquitted by officers of the Museum after travel which was contrary to the requirements stipulated in the *Financial Management Manual.*

It is a requirement under the *Financial Management Manual Part 20 paragraph 11.2* that cash advance to officers travelling overseas on official duty must acquit travel advances within 14 days of return from duty travel. While *Part 20 paragraph 12.10* of the *Manual* requires that advances to officers for domestic duty travel to be acquitted within 7 days of return from duty travel. I drew this issue to the National Museum and Art Gallery's management and they responded as follows:

"A template for acquittals has been developed and is being implemented. We have now demanded that officers provide acquittals for their trips before they are able to take the next official trip."

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. The 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 contract and casual employees were paid their salaries and wages since their personnel files were not provided for my review. I brought this matter to the attention of the management of the Museum and the management concurred with my observation and assured me that they will look into it and rectify the matter.

Ministerial Support/Grant

As reported previously, during my review I observed that the Museum was funding monthly grant of K20,000 while Tourism Promotion Authority and National Cultural Commission were paying K25,000 and K8,333.33 respectively per month for ministerial duties and commitments. These grants were 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.

Further, I noted that there had been 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 legitimize the funding to the Ministry. I brought this matter to the attention of the management of the Museum and they responded that this issue had now been raised with the agencies and would be actioned to rectify the issue.

Amphitheater Project

During my review, I noted that the Museum had awarded the contract worth K1,356,500 to a firm without following the Public Tendering process as stipulated in *Section 40* of the *Public Finances (Management) Act*. The above contract was awarded based on Selective Tender process.

As a result, I was unable to establish whether or not the Museum received *"Value for Money"* through Selective Tender process and the funds were utilized for the benefit of the project. *I brought this issue to the management's attention and they did not respond to this query.*

Internal Control Weaknesses

Other internal controls breakdown and weaknesses noted during my audit were summarized in the subsequent paragraphs:

(i) I noted that most transactions were not classified to their respective accounts and were posted to wrong votes.

(ii) I was not provided with contract/service agreement or documents for transactions totaling K118,479 despite my request.

(iii) I was not able to substantiate the validity and the authenticity of payments amounting to K53,400 due to insufficient and missing supporting documents.

(iv) The Museum had neither maintained any records for petty cash, nor done any reconciliations.

(v) 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 verify if employees were qualified for recreational leave and leave fares in the absence of the leave records.

(vi) A new vehicle, a 10 Seater Toyota Land Cruizer was purchased by the Museum for the police and security guards to use it at the project site (ICC). I requested the registration documents, but was not provided. As a result, I was unable to confirm the ownership of this vehicle.

The management agreed to take necessary actions to rectify the above internal control 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 2015 and 2016 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 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, 2014, 2015 and 2016 for my inspection and audit despite repeated 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 AND RECOMMENDATIONS

33.2.1 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 2016 was issued on 28 June 2017. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Investment – K2,500,000

My review of the Interest Bearing Deposit (IBD) account revealed that the IBD Certificates and IBD register/schedules were not properly maintained by the Institute and not provided for my verification. In addition, I noted that the IBD balance was reduced by K1,368,702 from K3,868,702 in 2015 to K2,500,000 at year end.

Due to lack of proper supporting documentation, I was unable to perform the necessary audit procedures to confirm the accuracy and the correctness of the balance presented in the financial statement. Further, I was unable to determine the reasons for the reduction in the IBD due to lack of supporting documents.

Accounts Receivable – K96,203

My review revealed that IBD interest receivable opening balance of K32,039 was not captured in the general ledger. As a result, I was unable to confirm whether interest receivable was properly captured in the general ledger and disclosed in the financial statements.

Fixed Assets – K14,844,982

The Institute disclosed its fixed assets as K14,844,982 at 31 December 2016. During my review, I noted an unreconciled difference of K1,221,393 between the general ledger and the financial statement balances. I also noted that the Institute has not properly maintained a Fixed Assets Register (FAR) to record the details of all fixed assets purchased and under its custody. No physical stock-take was undertaken by the Institute at year end or during the year under review. As such, I was not able to confirm the existence, valuation and condition of the fixed assets and the depreciation expense totaling K359,052 recorded in the financial statements as at 31 December 2016.

Accumulated Funds/Capital Equity – K19,437,547

My review of the accumulated funds revealed a variance of K974,072 between the prior year audited financial statement balance of K14,852,623 and the opening balance brought forward in the 2016 general ledger of K15,826,695, thus, overstating the opening balance. I was not provided with any explanation on the variance and as a result, I was unable to confirm the accuracy and completeness of the balance disclosed at year end.

Provision for Employee Benefits – K924,457

Provision for Employee Benefits disclosed in the financial statements as at 31 December 2016 was K924,457. I was not provided with the employee schedules to verify and confirm the balance. In addition, the journals passed relating to the provisions were not made available for my verification. As a result, I was not able to verify and confirm the accuracy and correctness of the balance presented 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 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 Institute as at 31 December 2016 and the results of its financial operations for the year then ended."

33.2.2 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 2016 was issued on 28 June 2017. The report contained the following matters:

Bank Reconciliations

My review of the four (4) bank accounts owned and operated by the Institute revealed instances where bank reconciliations were not done on a timely basis. Further, on several occasions, no monthly reconciliations were prepared at all which contravened the *Financial Management Manual, Part 4, Division 1 Para 4.7.* As a result, I was unable to place reliance on the controls surrounding the bank reconciliation process of the Institute.

I brought this to the attention of the management and it responded as follows:

"Management notes this issue raised. Bank reconciliations are normally prepared by month. However, if transactions are minimal, we combine two or three months, the most, into one reconciliation and is checked and signed off by the Finance Manager. Since the departure of the Finance Manager, the Senior Finance Officer checks and signs off on the bank reconciliations in his Acting Finance Manager capacity."

Council Meetings

The National Research Institute (NRI) Council met on four (4) occasions in 2016. My review of the minutes of the four (4) meetings revealed that the meeting minutes were not signed by the Minute Secretary nor were they approved by the Chairman certifying the proceedings of the meetings. As a result, I was unable to comment on whether all the administrative, financial and operational issues deliberated and transacted during the year were in the best interest of the Institute.

Management concurred with my finding and stated that it was an administrative oversight and will ensure this is complied with going forward.

Appointment of Council Members

As reported in my prior years' reports, I noted that the Chairman and the Community Representative of the NRI Council terms had expired on 17 January 2010. During the 2016 audit, I observed that there were no appointments made for the respective positions. I brought this issue again to the attention of the management of the Institute and it responded as follows:

"Management notes the outstanding issue raised. We agree with the recommendation to follow up on the progress of the appointments."

Director's Vehicle Allowance Advance

My review of the prepayment account revealed that in 2015, the Institute paid K109,000 (Cheque # 821) to Boroko Motors to purchase the Director's motor vehicle with the arrangement that the said amount need to be repaid over four (4) years using the Director's Motor Vehicle Allowance. On 28 October 2015, the Director again encashed an amount of K198,379 (Cheque # 114949) as vehicle allowance advance to be repaid over the same period. I noted the following discrepancies in relation to the above:

a) *Salaries and Remuneration Commission (SRC)Determination G007-03-General Provisions* stipulates that the vehicle allowance advance can be paid to the supplier of the motor vehicle and not direct to the recipient. The Institute had not adhered to this provision;

b) The amount encashed by the Director was subject to normal salary and wages tax treatment. However, my review of the Director's payroll records revealed that the fortnightly deduction of K2,879.35 being Motor Vehicle Allowance was not included in the calculation of tax; and

c) At the time of my audit, the then Director had resigned without fully repaying the advance.

As a result, I was unable to comment on whether the arrangements made were proper and transparent and whether the Institute will be able to recoup the remaining balance from the former Director.

I recommended the Institute to cease such practice of paying cash advances to officers without following proper procedures. I further advised the Institute that the underpayment of tax and outstanding advance from the Director should be recouped before final entitlement is paid.

The management agreed with my recommendation and responded as follows:

"The management notes the issue raised which occurred during the term of the immediate former Director who held the post from 1 June 2015 to 8 April 2017 when he resigned from the post. The management agrees with the recommendation and will implement it. At the time of writing, the Institute has not paid the then Director's final entitlements yet due to its own concerns on the issue raised. Relevant calculations will be done and applied. That is all entitlements will only be paid after money owed has been recouped. In the event that the money owed is greater than final entitlements, the former Director, will be asked to repay the outstanding balance. The former Director has been advised of the implications and has agreed with the recommended approach to address the issue."

Lack of Proper Maintenance of Staff Personnel Files

My examination on personnel files for selected officers of the Institute revealed that staff salary history cards/ledgers were not properly maintained. Salary history cards should be maintained to update salary adjustments and to provide summary of staff employment information and benefits such as leave and other entitlements. I further noted that the birth certificates and other dependents' records were not properly maintained for me to verify the leave fares paid. Inadequate record keeping of the staff salary records expose the Institute to the risk of paying incorrect employee benefits and provide avenue for abuse and fraud.

The management concurred with my observation and advised that it will ensure that staff salary history cards and other records are maintained going forward.

Other Internal Control Weaknesses

Other internal control weaknesses noted during my review were:

- Controls surrounding the procurement process of the Institute were not effective. As such, payments totalling K603,046 were not approved by the Director for Payments to be processed, instead payments were approved by Divisional Managers whose approval limits were below K5,000 as stipulated in the NRI draft financial procedures manual;

- The Institute had been operating without an approved operational and financial manual. The existing one was still in draft form but had already been used without the Council's approval. Accordingly, I was not able to comment on the standards of the operations in relation to the systems and controls; and

- There was no Internal Audit Unit established as per the requirements under *Section 9 (1)(a)* and *(f)* of the *Public Finances (Management) Act 1995*.

I drew management's attention to these weaknesses and was advised that steps will be taken to address these issues.

General Journals – Lack of Source Documents

My examination revealed that the Institute passed numerous journal entries during the year under review. However, appropriate records of the journals were not maintained for my verification. Accordingly, I was unable to obtain a complete list of journals processed and recorded in the general ledger during the year so as to obtain sufficient appropriate evidence to confirm the basis on which the journals were passed and whether they represent the correct balances disclosed at year end.

I noted that the Institute did not have proper strategy in place to ensure that all records and information of the entity is not destroyed for smooth succession and continuity by exiting officers.

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 AND RECOMMENDATIONS

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 2015 was issued on 12 May 2017. 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 inspection and audit of the accounts and records of the Council for the year ended 31 December 2015 was issued on 12 May 2017. The report contained the following significant matters:

1. Traffic Infringement Notices (TIN)

My review of the traffic infringement fines revealed that controls surrounding this area had improved over the years. However, there were instances where TIN books that were given to police officers were never returned to the Council and some Inspectors lost the TIN books. Although TIN Fines schedules were properly maintained and summarized, summaries of deposits and deposit vouchers were not properly filed by the designated officer for review purposes. I brought this matter to the management and the management responded as follows:

"We have reviewed our internal control systems and are now implementing new controls including the control of TIN and receipt books. Officers are designated to ensure proper record keeping and the actual TIN and receipt books are safely and properly maintained."

2. Maintenance of Staff Personnel Files

My review of the Staff Personnel Files again 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. Management since responded to my query as follows;

"We have reviewed maintaining of staff files by our human resources division and are in the process of replacing the current officer in charge of the division concerned and have identified the areas concerned to be improved and IRC salaries and wages declarations are complied with on a regular basis."

3. Loss of Laptop Computer

A laptop for the Lae Branch used in its operations was stolen in November 2016. This theft was reported to the police and a report was provided for my review. However, the case was still outstanding and the Council was yet to conduct an internal investigation and ensure appropriate action had been taken to recoup the cost of the laptop. I brought this matter to the attention of the management and the management responded as follows:

"We confirm the laptop from within our Lae office and as per your recommendation we have reported the matter/theft to the Lae metropolitan police but investigation is yet to be conducted and we are yet to be informed of the date of investigation.

An internal investigation will be conducted soon when our internal auditor travels to Lae office sometimes this year and will take appropriate disciplinary actions based on the internal auditor's recommendations to my office."

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 2016 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 AND RECOMMENDATIONS

35.2.1 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 2015 was issued on 12 September 2016. The report did not contain any qualification.

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 2015 was issued on 12 September 2016. The report contained the following observations:

Cash at Bank – Reconciliation

The National Roads Authority disclosed its cash balance as K19,881,507 at 31 December 2015 in its financial statements. The Authority maintained two (2) bank accounts namely Operating Account and the Road Fund Account. During my review, I noted that the Operating and Road Fund accounts contained K1,142,904 and K481,560 unreconciled transactions carried forward from prior years respectively. I also noted that stale cheques amounting to K208,834 were not written back in the Operating Account at balance date.

I raised these issues with the management and was notified that the unreconciled transactions were identified and matched off bringing the balance to K277,843 and K481,560 for the Operating and Road Fund accounts respectively. I was further advised that the transactions totaling K759,403 were identified and would be cleared in the subsequent year (2016).

Fixed Assets – K5,275,602

The Authority disclosed its fixed assets as K5,275,602 at 31 December 2015. My review of the fixed assets of the Authority revealed that the Fixed Assets Register (FAR) was not properly maintained and updated on a timely basis. I noted that assets were not allocated with numbers tagged to them for identification purposes. Further, the Authority did not have a clear capitalization policy specifying the criteria for capitalizing fixed assets.

Management noted my concerns and advised that the FAR was work-in-progress and that the fixed assets policy will be drafted and submitted for management endorsement.

Road Maintenance Work – Highlands Region

I noted during my physical inspection of road maintenance projects in the Highlands Region that a particular contractor was awarded different contracts in three (3) Highlands provinces of Jiwaka, Western Highlands and Southern Highlands. This contractor had utilized/used the same equipment across the three (3) separate provinces mentioned above which had resulted in delays to project completion.

I queried management whether careful consideration was given in awarding the contracts to one contractor which resulted in delays in completing these projects.

In its response, the management concurred with my finding and commented as follows:

"...lessons learned in this project include;

- *Recommendations will be made in such a way that no single contractor gets most contracts;*
- *Ensure to assess the bidders' plant and equipment capacity in view of recently awarded and ongoing projects. Penalty proposals were made to penalise contractors who failed to provide proposed key plant and equipment as a conditional clause in future NRA contracts.*
- *Ensure that bidders' capacities are sufficient to execute the contract in view of ongoing projects."*

Road Maintenance Work – Momase Region

During my review of the road maintenance works in the Momase Region, I noted that total amount contracted to two (2) separate contractors for respective road sections was K14,129,418. However, during my physical inspection I noted that some sections of the Highway were in very poor condition despite incurring substantial amount of funds for these projects. As a result, I was not able to confirm whether proper work had been carried out based on the scope of the contract and whether proper inspection and monitoring of the work were conducted by the Authority on a timely basis.

I raised this issue with the management and was advised that the poor condition of the road was the result of the procurement being delayed by twenty (20) months, the pavement design to cater for low traffic volume and the wet weather patterns around the area. Management also provided better alternative approaches to avoid such issues in the future.

Outstanding Payroll Liability

The Department of Finance pays for the salaries and allowances through Alesco (Government) Payroll for the NRA employees based on the condition that the amount paid will be refunded back to the Department of Finance. My review revealed that the Authority had accrual salaries and allowances paid by the Department of Finance since 2011 without any settlements to date. As a result, amount totalling K7,787,290 remained outstanding as at 31 December 2015. This issue was also raised in my prior year audits for the Authority to settle the outstanding liability, however, the Authority had not honoured its commitment to settle the outstanding liability on a timely basis.

I recommended management to have a dialogue with the Department of Finance and resolve the issue.

Management commented as follows;

"Audit comments are noted. Management will make an appointment to follow up on an earlier letter sent to Dept. of Finance to seek further clarification and response regarding the payroll liability. NRA will seek to negotiate for Department of Finance to give consideration to recognise the payroll liability as a government grant. Failing that, then all attempts will be made to reduce this liability a structure repayment program with their concurrence."

Withholding Taxes Payable

During my review I noted that the Authority disclosed Withholding Tax as K1,904,932 as at balance date. This amount was related to the ten per cent (10%) withholding tax component of payments to contractors without valid Certificate of Compliance (COC). However, at the time of my examination, I noted that this amount which had accumulated over the years was not remitted to Internal Revenue Commission (IRC). I brought this non-compliance of *Sections 280 (1f)* and *(6)* and *Section 354O(1) of the Income Tax Act 1959* again to the attention of the management and management responded to my query as follows;

"NRA has reconciled the WHT Account and has prepared forms for lodgement but did not lodge the returns and payment to IRC because it is awaiting advice from IRC on NRA's claim for reimbursement on GST Input credits that will be to match off against WHT Payable.

With the letter for IRC ruling against the NRA claim for GST input credits, management have taken appropriate steps to lodge in WHT Returns and settle the tax amount owed."

Deposit for Land – K33,000

During my examination and review of the accounts, I noted the amount of K33,000 had been carried forward from prior years relating to a deposit made for land for NRA staff housing scheme. I further noted that nothing had been done in relation to the purpose for which the money was deposited and was not able to confirm and comment on the process undertaken to effect such transaction and whether proper decision was reached before the payment was made. I was not able to satisfy myself whether this money will be refunded. I raised this issue and recommended management to conduct such transactions in light of achieving value for money in the future.

Management concurred with my finding and explained that the amount was actually paid to secure land for the purpose of the Weigh Bridge in Lae, Morobe Province. I was also advised that the amount was only a deposit to secure that land and a follow-up will be done in 2016.

35.3 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 2016 was in progress.

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 report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Council for the year ended 31 December 2015 was issued on 30 January 2017. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Other Receipts – K52,145

The Council disclosed K52,145 in its accounts as other receipts received for registration and renewal fees from the training providers during the year. However, I noted that the Council had not maintained a proper database or a comprehensive list of all the training providers in Papua New Guinea. I further noted that the training providers were not properly monitored by the Council and fees collected were based on an ad hoc basis. As such, I was unable to verify the total number of training providers and the amount of fees expected to be collected from the training providers due to lack of audit trail. As a result, I was unable to validate the fees collected. Consequently, I was unable to ascertain the accuracy and completeness of the fees collected at year end.

Fixed Assets – K893,252

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 K893,252 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, 2015 and the results of its operations for the year then ended."

36.2.2 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 Council for the year ended 31 December 2015 was issued on 30 January 2017. The report contained the following observations:

1.0 Financial Procedural Manuals

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. Further, as reported in my prior year report, I noted that there was no proper accounting system in place. 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 cash book provided for my examination. I recommended that the Council deliberate on the matter and compile procedural manuals and source a proper automated accounting system that suit the need of the Council.

The management concurred with my comments and added that they would do their best to compile a Finance Management Manual and secure a suitable accounting system for its usage.

1.0 Personnel Emoluments

My examination of the Council's 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 2015 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 take corrective actions to rectify the short comings.

The management agreed with my comments and accepted my recommendations and ensured proper controls would be maintained.

3.0 Expenditure Control Weaknesses

During my review of the operational expenses incurred in 2015, I noted that payments totaling K68,365 were made without proper supporting documentations. In addition, payments totaling K38,453 were made without obtaining the required three (3) written quotations. As a result, I was unable to verify and confirm the above payments as to their validity and appropriateness.

I also noted payments totaling K317,575 were made as pay cash cheques and not raised in the name of payees. I further noted that the Council had not maintained a proper Travel Advance Register to acquit for payments totaling K305,658. As a result, I was unable to verify and confirm if the above payments were made for the purpose intended.

I brought these issues to the attention of the management and was advised that corrective actions would be taken.

36.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Council for the year ended 31 December 2016 had not been submitted by the Council for my inspection and audit.

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 AND RECOMMENDATION

37.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the National Volunteer Service for the year ended 31 December 2016 was issued on 29 May 2017. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Cash at Bank – K1,174,126

During my review of cash at bank, I noted a variance of K1,173,060 between the reconciled balance of K1,066 and the final cash book balance of K1,174,126. I further noted that the bank reconciliations were not done properly due to no proper cash book had been maintained by the Service. The bank reconciliations were not done on a timely basis to identify any differences. Bank reconciliation was a key control mechanism which helps to detect errors and ensures the bank records were reconciled with the cash book of the Service to report a correct ending bank balance. As a result, I was not able to satisfy myself as to the accuracy of the bank balance of K1,174,126 as disclosed at the year end.

Fixed Assets – K192,125

The Service disclosed its total Fixed Assets balance in *Note 4* to the financial statements as K192,125 at 31 December 2016. 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. As such, I was unable to confirm whether all assets under the custody of the Service had been fully disclosed 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 National Volunteer Service for the year ended 31 December 2016 and the results of its financial operations for the year then ended."

37.2.2 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 Service for the year ended 31 December 2016 was issued on 29 May 2017. The report contained the following comments:

Group Tax Liabilities – K244,566

The Service reported Group Tax Liabilities totalling K244,566 as at 31 December 2016. 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 it responded to my observations as follows:

"The Service will raise these issues with DPM/Finance and Alesco (Ascender) payroll who are responsible for group tax remittance to IRC, as the administrator of the Payroll System for NVS. This issue was raised with the Finance Department, but is still pending and we will follow up with Finance Department this year (2017)."

Payroll

I was not able to confirm the total salaries and gratuities of K873,565 and K86,576 respectively as there were no Alesco payroll details and summary reports provided to me during my review to verify and confirm the actual payments disclosed in the financial statements. I brought this to the attention of the management and it responded that they took note and would take action to address the issue by recruiting staff as staff capacity was the problem.

Travel Advance/Acquittals Register

During my review, I noted that the Service did not properly maintain the Travel Acquittals/Advance Register during the year under review. I observed that the supporting documents like ticket butts, boarding passes, hotel and hire car receipts were not on acquittal file for my verification. I recommended the Service to maintain a Travel Acquittals/Advance Register for proper acquittal to account for funds disbursed for duty travel purposes. I brought this to the attention of the management of the Service and they responded that they will comply and maintain the Travel Advance Register.

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 management responses were submitted and the audit reports of the Commission for the years ended 31 December 2012 and 2013 were under preparation.

The financial statements of the Commission for the years ended 31 December 2014, 2015 and 2016 had been submitted for my inspection and audit and arrangements were being made to commence the fieldwork shortly.

39. OIL PALM INDUSTRY CORPORATION

39.1 INTRODUCTION

39.1.1 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.

39.1.2 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.

39.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

39.2.1 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 September 2016. The report contained a Qualified Opinion.

"BASIS FOR QUALIFED OPINION

Cash at bank – K3,380,634

The Cash at Bank balance included the Head Office operating account balance of K107,195, Popondetta project of K111,064, Bialla project of K93,244 and Milne Bay project of K3,699 at the year end. My review of the accounts revealed that bank reconciliations were not prepared on a monthly basis and not signed by the preparer and the reviewer. In addition, the Head Office bank reconciliation included unadjusted outstanding cheques totalled K5,814.37, Popondetta project bank reconciliation included 2009 and 2010 unadjusted outstanding cheques totalled K13,943.77, Bialla project bank reconciliation included unadjusted outstanding cheques totalled K2,976.99 and Milne Bay project bank reconciliation reported unadjusted outstanding cheques amounting to K13,691.03. Further, I was not provided with the bank confirmation for Head Office and some Project accounts to enable me to confirm the closing balances.

As a result, I was unable to satisfy myself as to the correctness and validity of the cash at bank balance disclosed as at 31 December 2011.

Fixed Assets – K4,093,262

I noted that the Corporation disclosed K4,093,262 as its fixed assets balance as at year end. My review of the Fixed Assets Registers, the general ledgers and their opening balances revealed that their opening balances did not agree. Consequently, I noted a variance of K433,138 between the consolidated ledgers balance of K4,526,399.42 and the financial statement balance of K4,093,262 at year end. As such, I was unable to satisfy myself as to the correctness and validity of the Corporation's fixed assets balance disclosed as at 31 December 2011.

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 Corporation for the year ended 31 December 2011 and the results of its financial operations and cash flows for the year then ended."

39.2.2 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 September 2016. The report contained the following matters:

Internal Control Environment

My examination revealed that segregation of duties was not implemented in the financial operation in Head Office and various Project offices of the Corporation. The officers who performed the collection, receipting and banking functions also had control over the data entry into MYOB Accounting Software. In some instances they also undertook payroll and cheque requisition functions.

Fixed Assets Registers

The Corporation, despite my previous recommendations, had not up-dated its Fixed Assets Registers. Complete stock take of all Projects fixed assets is essential since most of them were purchased long time ago and their existence may be in doubt.

In addition, for some projects, there were no proper reconciliations done between the Fixed Assets Registers and the general ledgers to reflect accurate information.

Budget Overspending

I noted that during 2011 the Projects' expenditure exceeded the budgeted amounts without the proper approvals from their respective Local Planning Committees (LPC). In addition, for some Projects, I was not provided with the budget. I recommended management that spending should be regularly reviewed and monthly reports should be prepared for LPC review and approval.

Non-Submission of Financial Statements

The Corporation had not prepared and submitted its financial statements to my Office before 31 March 2012 to enable me to complete the audit within the timeframe stipulated by the *Public Finances (Management) Act 1995*. Consequently, the Corporation had breached *Section 63(2)* and *63(4)* of the *Public Finances (Management) Act 1995.*

Other Internal Control Weaknesses

Other weaknesses noted during the audit were:

- OPIC Board meeting minutes and some Projects' meeting minutes were not signed by the Chairman in order to confirm the minutes were true and correct. In addition, for some Projects, I was not provided with the meeting minutes.

- GST preparation and lodgment to IRC were not done.

- No evidence of signatures for casual employees attached to the cheque requisitions/vouchers to support that monies were received.

- Head Office and Projects did not maintain an Advance/Acquittal Registers during the year under review.

- Periodic reconciliation of trade debtors and creditors accounts general ledgers and subsidiary ledgers were not done.

- Head Office and Projects personnel files and salary history cards were not updated and properly maintained on a regular basis.

- My review in the procurement process revealed that some Projects paid for goods and services without obtaining three written quotations and some payments were not properly authorized by the appropriate financial delegate.

In addition, leave fare entitlements were paid for staff dependents whose ages were over 19 years. In some instances, staff claimed extra dependents that were not their legitimate dependents.

I brought these weaknesses together with other audit findings to the attention of management for their appropriate responses but the management had not responded to my Management Letter to enable me to incorporate their comments as part of this report.

39.3 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 2012, 2013, 2014, 2015 and 2016 for my inspection and audit, despite numerous reminders from my Office.

40. OMBUDSMAN COMMISSION OF PAPUA NEW GUINEA

40.1 INTRODUCTION

40.1.1 Legislation

The Ombudsman Commission was established under *Section 217* 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.

40.1.2 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.

40.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

40.2.1 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 2014 and 2015 were issued on 1 August 2016 and 29 June 2017 respectively. The 2014 report contained a Qualified Opinion while the 2015 did not contain any qualification.

40.2.2 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 2014 and 2015 were issued on 1 August 2016 and 29 June 2017 respectively. The reports contained similar observations, hence only the 2015 report is reproduced.

Cash at Bank – K4,899,631

During my review of the 2013 cash at bank account, I noted that the Operating Account bank reconciliations were not prepared and certified on a timely basis. I was not provided with the bank reconciliation statements by the Commission to perform the necessary audit procedures which resulted in scope limitation and was reported accordingly. In my 2014 audit, I noted a difference of K2,385,580 between the cash at bank and the statement of receipts and payments balance which the Commission was unable to reconcile due to lack of proper bank reconciliations in 2013. In my 2015 audit, I noted that the accumulated variances amounted to K2,401,734. I therefore, extended my audit procedures/scope during the 2015 audit and revisited the 2013 bank reconciliations statements and cash book. The following were noted during this exercise:

- The systematically generated monthly bank reconciliations for the main operating account from the PNG Government Accounting System (PGAS) were not prepared and reviewed on a timely basis.
- In 2013 a total of K1,369,188 relating to payroll expenses were incorrectly posted as debits inflating the cashbook balance. Further, an amount of K138,319 relating to payroll expenses debited by the bank was not taken up in the Commission's cashbook. As a result, the cash book was inflated by K1,507,507;
- An amount of K536,186 relating to capital assets was incorrectly credited twice in 2013 understating the cashbook balance at year end by K1,072,372; and
- The revised/adjusted statement of receipts and payments balance of K4,858,849 as at 31 December 2015 had a variance of K40,782 against the cash at bank amount disclosed in *Note 5* as K4,899,631;

As a result, I was not able to conclude on the accuracy of the balance disclosed as at 31 December 2015 nor place reliance on the effectiveness of the internal controls surrounding the bank reconciliation process of the Commission.

I have recommended the Commission to make necessary adjustments to reconcile the bank accounts to agree with the cashbook balance.

Lack of proper maintenance and update of Fixed Assets Register (FAR)

The Fixed Assets Register (FAR) is the main control mechanism that captures and confirms the value and the ownership of the assets of an organization. During my review, I was not provided with the updated FAR to confirm the balance of K14,157,919 representing fixed assets as at 31 December 2015 disclosed in *Note 4* of the Statement of Receipts and Payments. I further noted that no stock-take exercise was carried out by the Commission during the year under review. In the absence of a properly updated FAR, I was unable to perform the necessary audit procedures to verify and confirm the conditions and the existence of the assets held by the Commission at year end. In addition, there is a high risk of assets being misused or lost through theft when proper records are not maintained.

I brought this issue again to the attention of the Commission and recommended for improvement in this area.

Institutional Housing Policy

During my review, I noted that the Commission built eight (8) new staff houses and acquired a duplex from the National Housing Corporation for staff accommodation. The eight (8) new houses were completed fully furnished in 2015 and commissioned in early 2016. However, I was not provided with the housing policy to further comment on the basis of allocation of houses to staff. I also noted that the Commission continues to pay housing allowances to staff despite Institutional Housing being provided to some officers.

I brought this issue to the attention of the Commission stating that such practice may be considered as double dipping and recommended the Commission to cease the practice of paying housing allowances to officers whom Institutional Housing had been allocated to. I further advised the Commission to recoup the amounts paid as housing allowance from concerned officers.

The Commission responded to my observation as follows;

"Commission is currently reviewing its Housing Policy and or HR Manual which will address the issue. In the meantime, Commission will consider the recommendation."

Management of Office Vehicle Fleet

In 2015, I noted that one of the Commission's vehicle (bus), rego# BCW 586 was involved in an accident, and while in Police custody, the vehicle went missing and had not been recovered. I further noted another vehicle (Toyota Landcruiser, 10 Seater) rego# BEJ 076 at the Ela Motors workshop for maintenance due to another accident at the time of my audit. No Police reports were provided for my review and verification.

In the absence of Police reports, I was unable to verify and comment on the effectiveness of the controls surrounding the usage of motor vehicles in the custody of the Commission. Further, I was not able to confirm whether the accidents occurred during official hours.

The Commission acknowledged my observation and accepted the recommendation.

Internal Control Break-down in the Usage of Telephone & Internet

Utilities expense incurred and paid in 2015 totalled K1,046,017. The utilities expense significantly increased by fifty per cent (50%) compared to the amount expended in 2014. I also noted that K758,557 constituting seventy-three per cent (73%) of the total amount disclosed as utilities expense was related to internet usage and toll free (voice) calls.

Upon my review, I noted that the accounting system with the Private Automatic Branch Exchange (PABX) was not installed to monitor calls resulting in increased toll free (voice) calls in 2015. Internet usage per month from Telikom PNG Limited was restricted to fifty (50) gigabytes for the Commission as a whole. However, I noted that one officer used seventy-three (73) gigabytes during the month of July 2015, which is (147%) more than the fifty (50) gigabyte allocation.

Due to the above observations, I was unable to place reliance on the effectiveness on the controls surrounding the usage of internet and telephone. Further, I was unable to comment whether that increase in telephone and internet bills related to official and/or operational purposes.

I brought this issue to the attention of the Commission and recommended for effective controls in the area of telephone and internet usage which the Commission acknowledged and accepted my recommendation.

Human Resource (HR) and Payroll Procedural Manual

I noted during my audit that Human Resource Division did not have in place a proper In-House HR and Payroll Procedural Manual to assist staff of the Human Resource Division and Payroll to perform their functions in accordance with best practice and applicable standards/regulations. Consequently, I noted that the Commission did not comply with *General Orders 14.47. General Orders 14.47* states that *"An officer shall pay to the State at the time of applying for payment of recreation leave fares, a contribution towards the cost of the fares which shall be calculated at ten per cent of his/her gross substantive fortnightly salary at the date immediately prior to proceeding on recreation leave"*. Due to the absence of a proper HR and Payroll Policy, I was unable to comment on whether proper procedures were followed by the Commission in 2015.

The Commission advised me that the HR and Payroll Policy Manual was in draft form since 2014 and would address the issues I raised.

Expired Contract of Employment

During my review, I noted that an officer's employment contract had expired on 26th January 2014 but had been employed by the Commission for more than two (2) years without a valid employment contract.

In the absence of a proper contract of employment, I was not able to confirm and verify the basis of the allowances and benefits (motor vehicle and school fee) paid to the officer during the period February 2014 to 31 December 2015. I recommended the Commission to ensure all payments to staff are made in accordance with approved contract of employment.

In response to my query, the Commission stated that:

"whilst we acknowledge that we do not have a written contract, a written contract for the immediate prior period exists, which terms and conditions extend to this present period now under consideration."

40.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had submitted its financial statements for the year ended 31 December 2016 and arrangements were being made to commence the audit shortly.

41. PACIFIC GAMES (2015) AUTHORITY

41.1 INTRODUCTION

41.1.1 Legislation

The Pacific Games (2015) Authority was established by the National Parliament under the *Pacific Games (2015) Authority Act 2011 (as amended).* This Act came into operation on 24 October 2011.

41.1.2 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.

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 Authority for the year ended 31 December 2014 was issued on 16 August 2016. The reports for the year ended 31 December 2015 and for the period 1 January 2016 to 19 July 2016 were both issued on 29 June 2017. The 2014 and 2015 reports contained similar Qualified Opinions while the report for the period ended 1 January 2016 to 19 July 2016 did not contain any qualification. For the purpose of this Report, the 2015 report is reproduced.

"BASIS FOR QUALIFIED OPINION

Acquittals of Legacy Expenditures

The administrative expenses of the Authority for the year ended 31 December 2015 included Legacy expenses amounting to K14,744,661. I was not provided with sufficient and appropriate evidence in relation to the acquittal of these expenses. Therefore, I am unable to confirm the validity of these expenses disclosed in the Statement of Receipts and Expenditures for the year ended 31 December 2015.

QUALIFIED OPINION

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements of Pacific Games Authority for the year ended 31 December 2015:

(a) give a true and fair view of the receipts and expenses and the results of its operations for the year then ended; and

(b) with exception of instances on non-compliance described under Other Matters, the financial statements have been prepared in accordance with the Finance Instructions issued under *Public Finances (Management) Act 1995.*

OTHER MATTERS

Compliance with *Public Finances (Management) Act 1995*

The audit of the 2015 statutory financial statements commenced in April 2016 and the financial statements was approved by management on 28 June 2017. As such, the directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act 1995* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year."

41.3 STATUS OF FINANCIAL STATEMENTS

This Special Purpose Authority was established by the National Parliament under the *Pacific Games (2015) Authority Act 2011 (as amended)* and has ceased its operation on the anniversary of the completion of the Games. As such, the Authority ceased to exist on 19 July 2016. Therefore, this would be my last report to Parliament on this Authority.

42. PAPUA NEW GUINEA ACCIDENT INVESTIGATION COMMISSION

42.1 INTRODUCTION

42.1.1 Legislation

The *Papua New Guinea Accident Investigation Commission* was established under *Section 218 of the Civil Aviation Act 2000 (as amended)* and came into operation in January 2011.

42.1.2 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.

42.1.3 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.

42.2 AUDIT OBSERVATIONS

42.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the years ended 31 December 2011 and 2012 were issued on 18 April 2017. These reports did not contain any qualification.

42.2.2 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 Commission for the years ended 31 December 2011 and 2012 were issued on 18 April 2017. The reports contained similar comments, hence only the 2012 report is reproduced.

Compliance with Public Finances (Management) Act 1995

The financial statements for the year ended 31 December 2012 were approved and issued on 10 April 2017. The directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act* for audited financial statements of public bodies/ Companies owned by the State to be furnished to the Minister before 30 June of the subsequent year.

42.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had submitted the financial statements for the years ended 31 December 2013, 2014, 2015 and 2016 for my inspection and audit and arrangements were being made to commence the audit shortly.

43. PAPUA NEW GUINEA CUSTOMS SERVICE

43. INTRODUCTION

43.1.1 Legislation

The National Executive Council (NEC) in its meeting on 24 July 2014, *Decision No: 216/2014* approved that the Papua New Guinea Customs Service be transformed from the National Public Service into an Independent Statutory Authority through a separate Act of Parliament.

In accordance with the NEC Decision, the *Papua New Guinea Customs Service Act 2014* was drafted and certified on 21 October 2014, establishing the Papua New Guinea Customs Service as a Statutory Authority.

Prior to November 2014, the Papua New Guinea Customs Service was operating as a Department of the National Public Service.

43.1.2 The Functions of the Service

The functions of the Papua New Guinea Customs Service are to:

- Administer and enforce the customs laws;
- Promote compliance with the customs laws;
- Take such measures as may be required to improve service provided to importers and exporters with a view to improving efficiency and maximising revenue collection;
- Take such measures as may be required to counteract customs fraud and other forms of duty evasion;
- Advise the State on matters relating to customs and to liaise with relevant stakeholders on such matters;
- Represent the State internationally in respect of matters relating to customs; and
- Carry out such functions as are given to the Papua New Guinea Customs Service under this Act or any other law.

43.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Service had not submitted its financial statements for the period ended 21 October 2014 to 31 December 2014 and for the years 2015 and 2016 for my inspection and audit despite my reminder.

44. PAPUA NEW GUINEA FOREST AUTHORITY

44.1 INTRODUCTION

44.1.1 Legislation

The Papua New Guinea 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)*.

44.1.2 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 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.

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 2013 and 2014 were in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2015 and 2016 for my inspection and audit.

45. PAPUA NEW GUINEA IMMIGRATION AND CITIZENSHIP SERVICE AUTHORITY

45.1 INTRODUCTION

45.1.1 Legislation

The *Papua New Guinea Immigration and Citizenship Service Authority* was established under the *Immigration and Citizenship 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.

45.1.2 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 citizenship through education and training;
- Pursuit of effective strategies including improved administrative and legal machinery for managing immigration, citizenship 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.

45.1.3 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 citizenship in the performance of his/her functions under Part IV of the *Constitution* and the *Citizenship Act (Chapter 12)*;
- Collect fees, penalties and other revenue authorised under the *Migration Act (Chapter 16)*, *Passport Act (Chapter 17)* and *Citizenship 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, citizenship 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 *Citizenship 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 *Citizenship 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.

45.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

45.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2014 and 2015 were issued on 13 June 2017. The reports contained similar Disclaimer of Opinions, hence, only the 2015 report is reproduced.

"BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope

Closing Balance – K26,279,497

I was unable to confirm the correctness of the opening balance as at 1 January 2015 due to a material difference noted between the closing balance of the Statement of Receipts and Payments and the aggregate bank balance reported in my prior years audit. As a result of this material variance, I was unable to perform the necessary audit procedures to verify the completeness and the accuracy of the opening balance for the year ended 31 December 2015. Since the opening balance has a bearing on the closing balance of the Authority, I was unable to state whether the balance of K26,279,497 has been fairly stated in the accounts at the year end.

Bank Reconciliation

My review of the cash balance of the two bank accounts (Trust and Operating) maintained by the Authority revealed that the bank reconciliations were not prepared, checked and approved by senior finance officers of the Authority in 2015 on a timely basis. I was also not provided with the independent bank confirmation to ascertain the completeness and accuracy of the bank accounts disclosed in the financial statements. As a result, unpresented cheques totaling K2,698,653 dating back to 2012 still remained outstanding. Further, direct deposits, transfers and payments classified as reconciling items totaling K72,697,619 were noted in the reconciliations as at 31 December 2015. The huge balance reflects lack of proper updating of cashbook to capture all the reconciling items. Consequently, I was not able to place reliance on the effectiveness of the controls maintained by the Authority over cash.

Accounting Records - Cashbook

My review of the accounting records and cashbooks for the year ended 31 December 2015 revealed that the Operating and Trust cashbooks were incomplete and were not correctly maintained. I noted that the cash books only captured the expenditures and no journals were passed to account for the receipts such as portions of the fifty percent (50%) Migration Service Fees, Government Grants and other receipts. As a result, I noted a variance of K21,244,381 between the financial statement and the reconciled cash book balance. As such, I was unable to ascertain the reconciled cash book balance at the year end.

Fixed Assets

My review of the Fixed Assets Register (FAR) of the Authority for the year ended 31 December 2015 revealed that the Authority did not properly maintain an updated Fixed Assets Register on a timely basis showing all additions and disposals (if any) of assets made during the year. I also noted that summary of the fixed assets owned by the Authority as at 31 December 2015 was not disclosed by way of notes to the accounts. The Assets Register provided for my verification was incomplete and did not capture all assets purchased during the year totaling K3,250,325. As such, I was unable to conclude on the accuracy, valuation, existence and ownership of the fixed assets owned by the Authority as at 31 December 2015.

Expenditure – K911,286

The Authority did not maintain proper records of payments totalled K911,286 during the period under review. My review of the expenditures during the year revealed on twelve (12) instances, payments totaling K911,286 were missing or not placed on the payment voucher files for my verification. Consequently, I was unable to perform my audit procedures to determine the validity, completeness and accuracy of the payments amounting to K911,286 as reported in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters referred to 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 the Authority for the year ended 31 December 2015."

45.2.2 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 Authority for the years ended 31 December 2014 and 2015 were issued on 13 June 2017. The reports contained similar observations, hence, only the 2015 report is reproduced as follows:

Lack of Proper Assets Records

During my review, I was unable to ascertain the value and existence of the assets purchased during the year and the cumulative assets balance due to lack of proper maintenance of records. In addition, I noted that there were no proper asset numbers or tagging done for all the assets purchased by the Authority. Further, no stock-take exercise was carried out during the year to verify assets' conditions, existence and usage.

Motor Vehicle Allowances

My review of the salaries and allowances revealed that certain senior officers of the Authority who were receiving motor vehicle allowances were also provided with Office vehicles for 24 hour usage with fuel. In my view that the officers were in breach of their Employment Contracts with the Authority by double dipping from motor vehicle allowances as well as provided with motor vehicles for 24 hour usage with fuel. Pursuant to the *General Order 9*, contract officers were to benefit either from the vehicle allowance or a motor vehicle provided by the Authority, not both.

The management responded with the following;

"The other contract officers who are part of management team are allocated motor vehicle and also are receiving motor vehicle allowance is approved by the Chief Migration Officer. Due to the nature of their work and are on call during and after business hours to attend to urgent duties they were assigned vehicles at the prerogative of Chief Migration Officer."

Incorrect Classification and Posting

My review of expenditure classified under Other Operational Expenses and operational materials and Supplies (*Vote: 135 and 124*) during the year revealed that capital expenses totaling K210,453 were incorrectly classified and treated as other operational expenses and operational materials and supplies. I also noted that the payments were capital in nature however, not captured in the Assets Register. As a result, the balance representing other operational expenses and operational materials and supplies were overstated while the Capital Expenditure balance had been understated by the same amount. In addition, travel and subsistence expenses totaling K75,040 were incorrectly posted to other operating expenses resulting in the understatement of the travel and subsistence expenses and overstating other operating expenses by the same amount respectively.

Non-Acquittal of Travel Advances

My review of travel and subsistence expenses totaling K3,562,822 during the year revealed that only K107,320 were acquitted and K3,455,502 had not been acquitted by concerned staff of the Authority during the year. There was no proper Travel Advances Register maintained by the Authority in 2015 to monitor that the advances were properly recorded and timely acquitted. As a result, the Authority had not complied with the *Financial Management Manual.*

I drew management's attention to the requirements of the *Financial Management Manual* paragraph 11 and 12 of Part 20 for compliance. The management responded that they would ensure officers will comply with the audit recommendation.

45.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

46. PAPUA NEW GUINEA INSTITUTE OF MEDICAL RESEARCH

46.1 INTRODUCTION

46.1.1 Legislation

The Papua New Guinea 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 report to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the year ended 31 December 2014 was issued on 30 September 2016. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

LIMITATION OF SCOPE

Opening Balance - K13,978,406

I was unable to confirm the accuracy of the opening balance as at 1 January, 2014 due to errors and a material difference of K13,978,406 noted between the closing balance of the Statement of Receipts and Payments and the aggregate bank balance in my prior year audits. The Institute was unable to reconcile the difference and restate the account balances. As a result, 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 2014.

Bank Accounts – K18,770,346

I noted that during 2014, the Institute maintained thirty-eight (38) bank accounts and three (3) fixed term deposit accounts. My review of the bank reconciliations and related records revealed the following;

- That six (6) bank accounts were not properly and timely reconciled resulting in variances. I was not provided any explanation for these variances.

- The migration from the Peachtree Accounting software through to the Sybiz Accounting package was carried out without correct cash balances transferred over.

- I noted that cheques have been drawn from some bank accounts without sufficient funds resulting in overdrawn account balances.

- Further, I noted that a stale and cancelled cheque register was not maintained to properly monitor and investigate long outstanding cheques. The stale cheques totaling K3,775,588.26 noted in 2013 accounts were written back during 2014.

As such, I was unable to determine the accuracy of the bank balances and their aggregate closing balance of K18,770,346 as at 31 December 2014.

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 recognizes cash transactions and does not take into account those that are payable and receivable on an accrual basis. The difference between total receipts and payments should agree to the bank balance. During my review, I noted a material difference of K8,581,189 between the total reconciled bank balances and the Statement of Receipts and Payments net balance. I was not provided any valid 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 stated at year end.

Fixed Assets – K37,039,979

My review of the Fixed Assets Register and capital expenditures revealed that the Register was not properly maintained and updated on a timely basis. The Institute's accounts are prepared using the *"cash basis"* of accounting therefore, the Fixed Assets Register not only forms part of the financial statements but is the only record that keeps track of the Institute's fixed assets. Consequently, 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 K37,039,979 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 Papua New Guinea Institute of Medical Research for the year ended 31 December 2014."

46.2.2 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 30 September 2016. The report contained the following observations:

Fixed Assets Register

My review of the Fixed Assets Register (FAR) and capital expenditures for the year revealed that the FAR provided for audit verification was incomplete and did not capture all assets under the custody of the Institute as at 31 December 2014. The Institute's accounts were prepared using the *"cash basis"* of accounting. As such, FAR not only forms part of the financial statements but was the only record that keeps track of an entity's fixed assets which were off the *"cash radar"*.

I drew management's attention to *Section 62* of the *Public Finances (Management) Act 1995* that requires all Public Bodies to maintain adequate controls over their assets or assets in their custody. I recommended management to conduct a thorough stock-take of all its assets and record them accordingly in the Fixed Assets Register. Assets must also be labeled for custody, control, movement and monitoring purposes. The management acknowledged my findings and took note of my recommendation.

Non-Acquittal of Travel Advances

My review of the travel and subsistence expenses totaling K1,775,428 during the year by staff on duty travel (domestic and overseas) revealed that the advances were not acquitted on a timely basis by staff. In addition, there was no Travel Advances Register maintained by the Institute in 2014.

I drew management's attention to the *Public Finances (Management) Act 1995* 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 (7) days for domestic travel and fourteen (14) days for overseas travel. Management responded that appropriate action would be taken. This was a recurring issue that I pointed out in my last report but no corrective measures had been taken by the Institute.

Staff Capacity and Competency

I noted that the Institute continued to maintain more than thirty (30) bank accounts each year.

Most of these bank accounts were for certain medical research programs funded by donor agencies; hence poor cash management within each project account without proper and timely bank reconciliations can have an adverse impact on both the current and future projects. As such, the Institute should consider increasing staff capacity with appropriate skills and knowledge to perform bank reconciliations and other accounting tasks on a timely basis.

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

The Institute had not submitted its financial statements for the year ended 31 December 2014 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the *Public Finances (Management) Act 1995 (as amended).* Consequently, the Institute had breached *Sections 63(2)* and *63(4)* of the *Public Finances (Management) Act 1995.*

46.3 STATUS OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2015 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

The Institute had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

47. PAPUA NEW GUINEA INSTITUTE OF PUBLIC ADMINISTRATION

47.1 INTRODUCTION

47.1.1 Legislation

The Papua New Guinea Institute of Public Administration was established in 1993 under the *Papua New Guinea 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 in the Country 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 AND RECOMMENDATIONS

47.2.1 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 the 11 August 2016 and 8 May 2017 respectively. The reports contained similar Qualified Opinions, hence only the 2013 report is reproduced.

"BASIS FOR QUALIFIED OPINION

Internal Control Environment

My review on the accounts and records of the Institute for the year ended 31 December 2013 revealed that weak internal controls operated during the year under review. There were no approved procedural guidelines or manuals to guide the daily operations of the Institute in respect of approval limits, authorization of expenditures and other recurring activities. Further, I noted that the accounts were maintained using spread sheets (Microsoft Excel) without having a proper accounting system/software. In the absence of proper internal control guidelines and mechanisms, I was unable to place any reliance on the effectiveness of the internal control system and whether this will have a bearing on the financial information recorded and disclosed in the financial statements.

Variance between the Cash at Bank Balance and the Statement of Receipts and Payments – K112,605

During my review of cash at bank, I noted that the bank balance per the reconciliations for the bank accounts maintained by the Institute was K85,855 while the ending balance disclosed in the Statement of Receipts and Payments for the year ended 31 December 2013 was K198,460 resulting in a variance of K112,605. The Institute was unable to reconcile the difference. I also noted that the bank reconciliations for the bank accounts were never prepared and verified by senior officers of the Institute on a timely basis. As a result, I was not able to place any reliance on the effectiveness of the internal controls surrounding the preparation of the bank reconciliations nor conclude on the accuracy of the balance disclosed as at 31 December 2013.

Fixed Assets – K240,811

The Institute has not disclosed its assets schedule as part of its financial statements. As a result, I was unable to state whether all the assets acquired to date by the Institute had been properly accounted for by the Institute in the absence of a Fixed Assets Register.

Receipt and Receivables

During my review of receipts and receivable accounts of the Institute, I was not provided with individual student ledgers to verify the receipts pertaining to course fees. The receivables representing student outstanding fees totalled K522,300 was disclosed in *note 3* of the financial statements. However, due to the absence of student ledgers, I was unable to confirm the accuracy of the balance stated at year end.

PGAS Payments on Goods and Other Services – K1,990,500

My review and examination on payments made out from the Operational Account revealed that most payments were made as reimbursements to the General Fund Account (GFA). The total reimbursement was 76.33% (K1,519,371.93) of the total expenditure on goods and other services. However, payment vouchers provided for my review were incomplete to enable me to extend my audit procedures to verify the amounts paid and recorded. Consequently, I was unable to conclude on the completeness, accuracy and propriety of the payments pertaining to General Fund Account reimbursements from the Operational Account.

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 *Public Finances (Management) Act 1995* as at 31 December 2013, and the results of its financial operations for the year then ended."

47.2.2 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 the 11 August 2016 and 8 May 2017 respectively. The reports contained similar observations, hence only the 2013 report is reproduced as follows:

1.0 Accounting System (Software)

The Institute did not have a proper Accounting System (accounting software) in place to produce financial reports. The Statement of Receipts and Payments (Financial Statements) was being manually prepared and produced using Microsoft Excel spreadsheets. The basic accounting records were being maintained on spreadsheets to draw monthly Income and Expenditure Reports from which the Statement of Receipts and Payments was compiled. I noted this manual process of preparing the Statement of Receipts and Payments during my previous audits and recommended the management to consider sourcing an Accounting Software appropriate for the entity. The Institute is yet to implement my recommendation.

2.0 Accounting Policy and Procedural Manual

During my review of the internal controls, I noted that the Institute did not have any policy and procedural manual in place to guide its financial and operational activities. The policy and procedural manuals serve as control tools to assist staff at all levels to execute their duties and responsibilities in accordance with legislative requirements and best practice.

I brought the matter to the attention of the management and was advised that it would ensure priority is given to effectively address the matter.

3.0 Governing Council Meeting Minutes

I noted that the Institute did not have a Governing Council in place during the year under review after the previous Council's term had expired. There was no timely appointment of a Council to oversee the operations and to ensure significant decisions made were based on sound and economic deliberations and considerations. Further, I was unable to use a bench mark or measurement to provide any assurance as to whether the Institute was properly governed and that all decisions and transactions executed were for the benefit of the Institute.

I brought the matter to the attention of the management and was advised that it will ensure an appointment of a Council is done on time.

4.0 General Fund Account (GFA) Wages – K335,620

During my review of the wages paid to staff of the Institute, I noted that staff personnel files did not have salary history cards as well as approved time sheets for actual hours worked. As a result, I was unable to determine whether the staff wages were calculated correctly and accurately according to the hours worked by each employee.

5.0 Service Providers Contract

I noted during my examination of the Institute's expenditures that significant amounts totaling K1,036,351 were incurred for various services provided to the Institute.

However, I was not provided with the contractual agreements, service completion reports and appropriate documents for my audit verification. As a result, I was not able to conclude on the accuracy, legality and whether such payments were made appropriately under the provisions specified in *Public Finances (Management) Act 1995* and the *Financial Instructions*.

47.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Institute had not submitted its financial statements for the years ended 31 December 2014, 2015 and 2016 for my inspection and audit despite my reminders.

48. PAPUA NEW GUINEA MARITIME COLLEGE

48.1 INTRODUCTION

48.1.1 Legislation

The Papua New Guinea Maritime College was established under the *Papua New Guinea 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 AND RECOMMENDATIONS

48.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the College for the year ended 31 December 2014 was issued on 29 March 2017. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Equity Opening Balances

The 2014 opening balances for Changes in Equity did not agree with the audited closing balances of 2013 in the financial statements by K333,963. I noted that the variances occurred due to the College not taking the 2013 audited figures for prior year adjustments, net surplus/(loss) related to accumulated surplus/(loss) and capital grants/project as the opening balances at 1 January 2014. As a result, I was unable to satisfy myself as to the completeness and accuracy of the account balances as at 31 December 2014.

Project Account – K24,937

During my review, I was not provided with the bank reconciliation statements and the bank confirmation for the Ausaid Incentive Fund Project account balance of K24,937. Further, the maintenance of the account and the monthly reconciliation documents were not provided for my audit verification.

In addition, the College had no control over cheque books for the Project Account and not in the custody of the College. As a result, I was not in a position to comment on the accuracy and validity of the Project account disclosed at year end.

Project Expenses – K38,286

During my review of the expenditures, I noted that withdrawals were made from the Project bank account totalling K38,286 from January to September 2014. I was unable to validate the authorization of the withdrawals and was unable to trace the cheque withdrawals on the bank statements to the general ledger. I also noted that the journals for payments were not prepared and posted for the above period. Further, I was not provided with the bank statements for the period October 2014 to December 2014 for my review and examination. As a result, I was unable to make any comment on accuracy, validity and disclosure of the project expenses stated in the financial statements.

Other Debtors – K677,641

The other debtors comprised of staff advance, prepayments and sundry debtors totaling K677,641 at year end. I noted during my review that the College did not maintain proper accounts and records and reconciliation schedules to perform the necessary audit procedures to satisfy myself on the account balance. As a result, I was unable to comment as to whether the account balance has been fairly stated in the financial statements at year end.

Student Tuition Fee – K3,087,647

I noted during my review that Maritime College did not maintain a proper listing of deposits, reconciliations and other necessary supporting documents in respect of the Student Tuition Deposit account during 2014 academic year to enable me to verify the amounts as reported in the financial statements at the year end. Further, the College did not have employees with necessary skills and experience to maintain and prepare reconciliation on the students' tuition fees account. Due to lack of skilled staff in the College, reconciliations were not done and the amount in the account had accumulated over the years till now. Consequently, I was unable to state whether the 2014 students' tuition fees account has been fairly stated at year end.

Valuation of Non-Current Assets – K10,548,441

I noted that since the establishment of the College, there was no valuation exercise carried out on its properties and other assets totalling K10,548,441 by an independent valuer to determine the fair values of the College assets. Further, the Fixed Assets Register maintained by the College did not capture all the assets; the useful life and residual values; their depreciation and amortization methods.

As a result, I was unable to comment on the value of the properties and other assets disclosed in the financial statements at year end.

Long Service & Annual Leave Provisions – K103,500

During my review of the leave provisions, I observed that the College did not maintain proper accounts and records for the provisions for long service and annual leave for its employees. Further, I noted that the closing account balance that was brought forward included prior year's 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 used-up, it was difficult to determine the leave accruals for each employee. As a result, I was unable to comment on the accuracy and completeness of the leave provision balances as disclosed in the financial statements.

Withholding Taxes (Salary Taxes) – K1,550,951

The College disclosed Withholding Tax as K1,550,951 at 31 December 2014. During my review, I noted that there was no audit trail nor proper supporting documentation produced for my review and examination. I had difficulty in reconciling the withholding tax deductions and other tax deductions accumulated over the years. Further, the College had not remitted group taxes over the years to-date. As a result, I was unable to ascertain the accuracy and completeness of the account balance at year end.

Accounting Treatment - Students Unearned Revenue Fee Deposit

Upon my examination of the Students Unearned Revenue Fees account, I noted that there were errors made in the accounting treatment of pro-forma invoice for Student Unearned Revenue Fees by the College. When the College issued pro-forma invoices to confirm students enrolment, the College recognized the Pro-Forma Invoice as income and a liability by debiting accounts receivable and crediting Student Unearned Revenue Fees liability account for the full amount of the fees payable. There should not be any accounting treatment for the pro-forma invoice because it was merely a quote for the courses offered. As a result, there were large unreconciled unearned revenues amount in the Students Tuition Unearned Fees Account totalling K440,425. Consequently, I was unable to satisfy myself as to the accuracy and validity of the account balance in the financial statements at year end.

DISCLAIMER OF OPINION

As a result of the significance of the matters discussed in the Basis for Disclaimer of Opinion paragraphs, I am unable to and do not form an opinion as to whether the financial statements give a true and fair view of the state of the College's affairs as at

31 December 2014 and the results of its operations and cash flows for the year then ended."

48.2.2 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 College for the year ended 31 December 2014 was issued on 29 March 2017. The report contained the following observations:

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

The College had not prepared and submitted 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 2014. Consequently, the College had breached *Sections 63(2)* and *63(4)* of the *Public Finances (Management) Act 1995.*

2. Title Deeds of College Properties

During my review of the Land and Buildings, I noted that the College had no valid title deeds in place or was unable to locate the deeds for thirteen (13) properties for my verification. As a result, I was unable to verify the College's ownership and rights over the properties.

I brought the above issue to the attention of the College management and I was advised that the College was continuously perusing and addressing the title issues.

3. Board Meeting Minutes

During my review of the board meeting minutes, I noted that the Board had held six (6) meetings during the year. However, all of these meeting minutes were not signed by the Board Chairperson.

The unsigned minutes meant the minutes were not authenticated to indicate the actual issues discussed at the meetings. As a result, I was unable to determine the credibility of the matters discussed and the resolutions passed during the meetings.

I recommended the Board Chairperson of the College to sign all the Board meeting minutes to validate the discussions and resolutions. I drew this matter to the management and they responded as follows:

"All minutes of meetings held in 2014 were effectively signed by the Board in 2016. These meeting minutes were not properly filed and made available to the Board for its consumption and signing as and when required. We were only able to do this this year when putting together 2015 and 2016 minutes for Board approval."

4. Travel & Subsistence – K135,935

I noted in my review of the travel & subsistence expenses amounting to K135,935 that the College did not maintain any Travel Advance/Acquittals Register for all duty travels and related expenses. Thus, most of the duty travels taken were not properly and fully acquitted. As required by *Public Finance Management Manual (Part 20)*, the management did not acquit travels within 7-14 days of Domestic and International Travels respectively.

I recommended the College to properly maintain a Travel Advance/Acquittals Register to record all duty travels taken and the register updated with supporting documents such as ticket butts/boarding passes, hotel invoices and receipts, hire car invoices and receipts and other documents. The management of the College had concurred with my observation and advised that appropriate/corrective action would be taken.

5. Personnel Emoluments

During my review of staff personnel files, I noted that the employment contract for the Principal of the College was not signed. In the absence of a valid contract of employment, I was unable to substantiate and validate the salary and allowances paid to him.

I brought the matter to the attention of the management and I was advised as follows:

"Terms and conditions for the Principal is awarded by SCMC through which payroll have paid year to date. It's only his appointment by National Executive Council (NEC) is yet to be received. The management is still following up with DPM on the matter."

6. Casual Wages

During my review of the casual wages payments, I noted on several instances where there were weaknesses noted in the approval process. Time sheets were not signed off by the officers responsible for the preparation, checking/verification and approval. A lack of adherence to the proper approval process indicated control weakness and might result in errors including calculations of casual wages.

I recommended management to implement proper check and approval process to ensure that casual staff wages payments were correct and genuine. The management advised that it became aware of the issue and would address the matter in 2015.

48.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the College for the years ended 31 December 2015 and 2016 had not been submitted for my inspection and audit, despite reminders.

49. PAPUA NEW GUINEA NATIONAL INSTITUTE OF STANDARDS AND INDUSTRIAL TECHNOLOGY

49.1 INTRODUCTION

49.1.1 Legislation and Objectives of the Institute

The Papua New Guinea 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 AND RECOMMENDATIONS

49.2.1 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 2014 and 2015 were issued on 7 June 2017. The reports contained similar Qualified Opinions, hence, only the 2015 report is reproduced as follows:

"BASIS FOR QUALIFIED OPINION

Debtors – K37,949

During my review of the Debtors, I observed that the Institute disclosed its trade debtors as K37,949 at 31 December 2015. However, the Institute had not compiled a trade debtors listing to record and monitor unpaid invoices. Further, accounts receivable ageing report and accounts receivable reconciliations were not maintained by the Institute. As a result, I was unable to state whether the debtors balance have been fairly stated in the financial statements.

Staff Advance – K43,407

The Institute disclosed K43,407 as staff advance in the financial statements. During my review, I noted that the Institute did not maintain a Staff Advance Register to record and monitor advance payments and collections so as to reconcile with general ledger records**.** In addition, the Institute had no documented policy for advances. As a result, I was not able to verify the staff advance amount as disclosed in the financial statements.

Fixed Assets – K3,009,468

The Fixed Assets Register provided for my review was not properly maintained and updated. During my examination, I noted that the Fixed Assets Register was incomplete and did not adequately capture all the Institute's assets including additions purchased in the current year. As a result, I was not able to verify the amount as disclosed 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 Institute for the year ended 31 December 2015 and the results of its financial operations for the year then ended."

49.2.2 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 Institute for the years ended 31 December 2014 and 2015 were issued on 7 June 2017. The reports contained similar observations, hence, only the 2015 report is reproduced as follows:

Non-Submission of Financial Statements

The Institute had not prepared and submitted its financial statements to my office before 31 March 2016 to enable me to conduct the audit within the timeframe stipulated by the *Public Finances (Management) Act 1995*. Consequently, the Institute had breached *Sections 63(2)* and *63(4)* of the *Public Finances (Management) Act 1995.*

Bank Reconciliation

My review of Cash at Bank revealed that bank reconciliations were not prepared, reviewed, checked and certified by senior officers of the Institute in 2015 on a timely basis. As a result, I was not able to place reliance on the effectiveness of the controls surrounding the management of cash and the bank reconciliation process. I brought this to the attention of the management and they concurred with my observations and assured me that corrective action would be taken.

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 2015. I drew this to the attention of the management and they responded as follows:

"We agree with your comments that the Institute needs a proper FAR and will look into it."

Investment Register

During my review, I observed that the Institute did not prepare and maintain an investment schedule to calculate and capture the interests earned and the rolled over balances. The Institute relied entirely on the certificates and bank statements provided by the Finance Companies.

Furthermore, I was not provided with the lodgement certificate to confirm the movements of both the 180 days term with First Investment Finance Limited and 30 days term with Micro Finance Limited. As a result, I did not perform any reconciliation to ascertain the existence, validity and completeness of the recorded interest income and investment balance at each maturity date at year-end. I recommended the Institute to prepare and maintain proper IBD Investment Schedule to keep track of the movements of the IBD investments. I brought this to the attention of the management and they concurred with my observations and assured me that corrective action would be taken.

Travel Advance/Acquittals Register

The Institute did not maintain a Travel Advance/Acquittals Register to keep proper records of acquittals for all duty travels and related expenses. The Institute did not comply with the *Public Finances (Management) Act 1995* which governs the management and use of public funds. It is a requirement under the *Financial Management Manual Part 20 paragraph 11.2* that cash advance to officers travelling overseas on official duty to acquit travel advances within 14 days of return from duty travel. While *Part 20 paragraph 12.10* of the Manual requires that advances to officers for domestic duty travel to be acquitted within 7 days of return from duty travel. Thus, I was unable to trace and authenticate advances and travel expenses against its acquittals. I brought this issue to the attention of the management and they responded as follows:

"We take note of your recommendation and will take appropriate action to address the issue."

Personnel Emoluments

My review of the personnel files for employees of the Institute revealed that no proper and timely updating of staff personnel records were done. Information such as salaries and wages tax declarations, birth certificates, salary history cards, leave records and other correspondences relating to salaries variations were not updated on a timely basis. I brought this issue to the attention of the management and they responded as follows:

"We take note of the issue raised and has instructed the Institute's Human Resource Section to update the staff files."

49.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 31 December 2016 had not been submitted for my inspection and audit.

50. PAPUA NEW GUINEA SPORTS FOUNDATION

50.1 INTRODUCTION

50.1.1 Legislation

The Papua New Guinea Sports Foundation was established by the *Papua New Guinea Sports Foundation Act 2005.* This Act was certified on 8 August 2006 and became operational on the same date and replaced the *Papua New Guinea Sports Commission Act 1992*.

Under this Act, all assets held or occupied by and all liabilities and obligations of the Papua New Guinea 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 Papua New Guinea; to provide leadership in the development of Papua New Guinea'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 Papua New Guinea for the development of sports and to develop and implement programs to promote equality of access to and participation in sports by all Papua New Guinea 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 Papua New Guinea 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 expend 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 Papua New Guinea 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

50.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Foundation's financial statements for the years ended 31 December 2005 to 2013 were issued on 09 March 2017. The reports contained similar Disclaimer of Opinions, hence only the 2013 report is reproduced as follows:

"BASIS FOR DISCLAIMER OF OPINION

Non-submission of Audit Evidence

The management of the Papua New Guinea Sports Foundation was unable to provide me with any sufficient appropriate audit evidence on which I could perform my audit procedures to the following Accounts;

Income	–	K39,701,083
Expenses	–	K46,044,406
Total Assets	–	K81,302,263
Total Liabilities	–	K41,621,660
Total Accumulated Funds	–	K39,680,604

The management of the Foundation had provided me a management representation regarding the lack of availability of sufficient appropriate audit evidence. As a result, I was unable to form an opinion on the accuracy and completeness of the financial statements of Papua New Guinea Sports Foundation.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I was not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of Papua New Guinea Sports Foundation for the year ended 31 December 2013.

OTHER MATTER

Non-submission of Financial Statements

- The Foundation had not prepared and submitted its financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December proceeding, resulting in breaches of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995*."

50.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Foundation had not submitted its financial statements for the years ended 31 December 2014, 2015 and 2016 for my inspection and audit.

51. PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY

51.1 INTRODUCTION

51.1.1 Legislation and Objectives of the University

The Papua New Guinea 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 Papua New Guinea.

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 Subsidiaries of the University

The University has two wholly owned subsidiary companies, *National Analytical 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 AND RECOMMENDATIONS

51.2.1 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 2013 and 2014 were issued on 17 March 2017 and 10 April 2017 respectively. The reports contained similar Qualified Opinions, hence only the 2014 report is reproduced as follows:

"BASIS FOR QUALIFIED OPINION

Opening Balances

In previous years (2010 to 2012) a disclaimer opinion were issued on the financial statements due to limitation of scope expressed in my prior years audit reports. For the year ended 31 December 2014, I was unable to carry out necessary audit procedures to satisfy myself as to the accuracy and completeness of the opening balances taken up in the books of the University.

Hence, I am not able to comment on the accuracy of the opening balance of Fixed Assets, Receivables, Employee provisions, Creditors, Group tax payable & Un-appropriated Surplus.

QUALIFIED OPINION

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statements of the PNG University of Technology for the year ended 31 December 2014:

(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 *Public Finances (Management) Act 1995*."

51.2.2 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 University for the years ended 31 December 2013 and 2014 were issued on 17 March 2017 and 10 April 2017 respectively. The reports contained similar comments, hence only the 2014 report is reproduced as follows:

Financial Statements

The Papua New Guinea University of Technology had 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 the results before the deadline, resulting in breach of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995*.

Trade Debtors Reconciliations

I reviewed the trade debtor's balance of the University and noted that this was not properly reconciled to the subsidiary ledger. The amount per general ledger trial balance was K82,740 while the balance per subsidiary ledger was K359,427 resulted in a difference of K276,687.

I had also noted that other non-trade debtor's transactions and/or accounts like the gratuity provisions and other refunds which I had isolated during my review was captured on the subsidiary ledger. Furthermore, invoicing and receipting of student fees which should have been done in the respective subsidiary accounts were not done consistently. My inquiry with the relevant staff within the bursary department revealed that the debtors' module had a configuration/setup issue which they had not resolved since the implementation of Attache reporting package.

I recommended to management that proper control cannot be exercised over trade debtors should proper and timely reconciliations were not carried out. Management agreed with my comments and stated that they were taking appropriate measures to fix the problems highlighted.

Staff Advances – K360,054

Proper reconciliations for the staff advances account as stated in *Note 10* was not provided. Hence, I was not able to comment on the validity of the balance. The management responded that the staff debtors were carried forward from the previous years and they were working on the list of employees to start their fortnightly salary deduction.

Tuition Fees, Maintenance Fees and Insurance Fees

The tuition fees, maintenance fees and insurance fees are part of the University's overall course fees. During my review, I noted that proper register of course fees was not maintained. I also noted that timely reconciliation of course fees were not carried out. I recommended to management to ensure proper records are kept. The management responded as follows:

"These fees were not misstated or overstated. Invoices are being raised and debited into the student ledger and credited into School Fee Account. GL extract were provided during the audit. We are requesting the Attache consultant to provide the system generated Fee Register in future."

Salaries and Wages

I had reviewed the salaries and wages of the University and noted that the tax value of the housing benefit, as prescribed by the *Income Tax Act, 1959 (as amended)*, was not included in the gross taxable income of each employees to calculate the salary income tax. Therefore, the staff of the University were paying lesser salaries and wages tax. I recommended to management to ensure group tax is calculated correctly and remitted to tax office.

The management commented that the tax value of the housing benefits was excluded from taxable income. They will check with Internal Revenue Commission and then discuss with the senior management and implement it if it is required by law.

Other Payments

I tested selected payments above K10,000 and vouched to supporting documentation. The aim of my vouching exercise was to ensure (a) payment agreed to supporting documentations, (b) supporting documents were adequate, (c) payment were approved by proper authorities, (d) classified correctly and posted to correct general ledger accounts, and (e) payments were in line with the requirements of the *Public Finances (Management) Act 1995*. I noted several documentation issues which I recommended to management to ensure the documentation issues are rectified in due course. The management concurred with my views and stated that they would implement my recommendations.

Fixed Assets

A stock take of fixed assets was carried out during the period under review and values established. The values arrived at did not reconcile with the general ledger trial balance and were difficult to correlate. The management responded that they were working to finalize the fixed assets register in Attache and to incorporate the assets brought through the PIP account during the years 2011, 2012 and 2013. They further stated that from 2016 onwards all assets shown in the Fixed Assets Register are to be reflected in the general ledger.

Compliance with Income Tax Act

My review of the operations of the University revealed that they were not compliant with the requirements of the *Income Tax Act*. These requirements mainly relate to submission of income tax returns and GST returns timely. I also noted that the group tax liability was not paid on time. I recommended to management to ensure tax laws are complied with. The management responded as follows:

"Firstly, University is exempted from filing of income tax returns but is liable to pay Group tax and GST. We have filed the GST returns up to February 2017. Regarding the group tax outstanding, we started paying K200,000 per month. Also, we filed CR1 form to transfer the GST in put credit into Group tax."

Control Environment - Policies and Procedures

The University did not have tailor made policies and procedures in place over its financial management function. The specific areas were fixed assets, investments, income, payments, accounting, human resources and compliance. Policies and procedures describe the parameters within which the University would like to operate and the risks that it would like to assume.

I recommended to management to take steps to ensure a set of policies and procedures are in place to ensure continuity and consistency of operations. The management responded as follow:

"The Financial Manual has been prepared by Internal Audit Office and the Bursary. The comprehensive document is available now. We are regularly checking payroll by other office that is not in payroll preparation as "Internal Control System" because 70% of the University expenses are coming from payroll cost."

51.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the University for the year ended 31 December 2015 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

The University had not submitted its financial statements for the year ended 31 December 2016 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 years ended 31 December 2012 and 2013 were in progress.

The Company had not submitted its financial statements for the years ended 31 December 2014, 2015 and 2016 for my inspection and audit.

51B. UNITECH DEVELOPMENT AND CONSULTANCY COMPANY LIMITED (Subsidiary of University of Technology)

51B.1 INTRODUCTION

Unitech Development and Consultancy 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 financial statements of the Company for the years ended 31 December 2014, 2015 and 2016 had not been submitted 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 objectives of the Fund are 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 Minister under *Section 8(4)* of the *Audit Act* on the Fund's financial statements for the year ended 31 December 2015 was issued on 27 February 2017. The report did not contain any qualification.

52.2.2 Audit Observations Reported to the Minister

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 2016 for my inspection and audit.

53. PUBLIC CURATOR OF PAPUA NEW GUINEA

53.1 INTRODUCTION

53.1.1 Legislation

The Office of the Public Curator of Papua New Guinea 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 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 2013 had been completed and management responses were being awaited to finalize the audit report.

The financial statements for the years ended 31 December 2014, 2015 and 2016 had not been submitted by the Public Curator's Office for my inspection and audit.

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 AND RECOMMENDATIONS

54.2.1 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 year ended 31 December 2012 was issued on 8 August 2016 while 2013 and 2014 were issued on 7 October 2016. The reports contained similar Qualified Opinions, hence only the 2014 report is reproduced as follows:

"BASIS FOR QUALIFIED OPINION

Cash at Bank – K692,560

My examination revealed that the bank reconciliations were prepared by the Manager (Finance and Administration) without any checks performed by an independent person as an internal control measure to validate the amount stated in the reconciliation statements. I also noted an unidentified cash disbursement of K5,991 which the management advised that this amount was generated by the Accounting system currently in use and that this will be rectified via proper reconciliation. I was unable to place reliance on controls surrounding the bank reconciliation process. As a result, I was unable to state whether the bank balances have been fairly stated in the accounts.

Fixed Assets – K210,669

My review of the Fixed Assets Register (FAR) revealed that the Register was not properly maintained and updated on a timely basis. 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 K210,669 as disclosed in the financial statements.

Accounts Receivable – K59,215

My examination of accounts receivable revealed that receivable balance was understated as it did not capture license and permit fees as fees receivable from license and permit holders who have not paid their fees on due dates. The Authority had 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 confirm the completeness and accuracy of the debtors and the fair presentation of the accounts receivables amount stated 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 2014 and the results of its financial operations for the year then ended."

54.2.2 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 Authority for the year ended 31 December 2012 was issued on 8 August 2016 while 2013 and 2014 were issued on 7 October 2016. The reports contained similar significant matters, hence only the 2014 report is reproduced as follows:

Non Acquittals of Travel Advances

My review of the travel expenses totalling K171,921 incurred 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, the above total remained outstanding or unacquitted at year end. I drew this issue to the attention of the management and they responded as follows:

"There are 2 security compliance inspection per year and some short trips by me (Registrar) and the managers therefore there are not many acquittals on the files. However, we have maintained an accurate record but we do appreciate and take your advice to have manual Register which we have now created a book to cater for this."

Register of Disciplinary Points

I noted that the Authority had not maintained a Register of Disciplinary Points. It is a statutory requirement pursuant to provisions of the *Security (Protection) Industry Act 2004, Section 25* which stipulates that the Authority should maintain a Register of Disciplinary Points. The Register of Disciplinary Points were to be used by the Authority to record findings through Board of Complaints in relation to disciplinary points that were recorded against a holder of license or permit. My review revealed that the Authority did not have in place a proper mechanism to account for disciplinary issues and actions taken against the license and permit holders when any breach occurs.

I drew this matter to the attention of the Authority and they agreed and informed me that they have now put in place a Registrar of Disciplinary Points managed by the Manager Licensing and Compliance despite the absence of Board of Complaints.

Board of Complaints

I noted during the audit that the Authority did not have a Board of Complaints to deal with complaints raised by or against license and permit holders as required under *Section 57* of the *Security (Protection) Industry Act 2004*.

I recommended the Authority to ensure that a Board of Complaints was established as per the requirement of *Section 57* of the *Security (Protection) Industry Act 2004* to perform its required function as a quasi-judicial Board to hear into complaints/allegations made by or against permit and license holders.

The Authority responded to my concern as follows:

"The Board of Complaints was never set up by the Security Industries Authority since its inception in January 2006. In 2015 the Security Industries Council approved the establishment of the Board of Complaints and the list was submitted to the Police Minister to be gazetted as required by Section 9 of the Security Industries (Protection) Act and nothing has happened. We have noted your concerns and will take it up to the Council in the next meeting to check the status of the Board of Complaints."

Annual Returns

It is a requirement under *Section 76* of the *Security (Protection) Industry Act 2004* that all license holders are required to submit an Annual Return on or before 31st March for the year ending 31st December preceding. During my review, I noted that no annual returns were received from license holders. The Authority had not pursued the enforcement of this statutory requirement through mechanism such as cancelation or refusal to grant licenses.

I drew this matter to the attention of the management and they responded as follows:

"We agree with you on the requirement for the submission of annual return by Security Companies as required by Section 9 of the Security (Protection) Industries Act. We've advertised in media reminding security companies to submit their annual returns but only few have been submitting their annual returns.

And further, there is no penalty listed in the Security (Protection) Industries Act for failing to submit the Annual Returns, therefore we cannot cancel the security providers' license and guards' permit or penalize security companies in one way or another."

Council Meetings

During my review of the 2014 meeting minutes, I noted that two (2) meetings were held during the year without the presence of a quorum as required under the *Security (Protection) Industry Act 2004*. The two (2) meetings were held with less than six (6) council members present which was not in accordance with *Section 15, Sub-section 1 (a)* of the *Security (Protection) Industry Act 2004* to form a quorum.

I recommended the Authority to ensure that required quorum exists to lawfully conduct Council meetings. The Authority responded to my observation as follows:

"We agree with the audit findings that we did not have the full quorum for the two (2) meetings. This issue is noted and advice that the council members not present have endorsed the issues discussed and agreed in the two (2) meeting resolutions.

This deficiency has been identified and we advertised publicly for interested candidates from the stakeholders through the former Chairman but nothing has happened. We will follow up with the current Police Commissioner and Chairman to sort this issue out soon."

54.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had not submitted its financial statements for the years ended 31 December 2015 and 2016 for my inspection and audit, despite my 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 fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the years ended 31 December 2013, 2014 and 2015 had been completed and the results were being evaluated.

The Corporation had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

56.2.1 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 2015 was issued on 5 August 2016. The report did not contain any qualification.

56.2.2 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 Tourism Promotion Authority for the year ended 31 December 2015 was issued on 5 August 2016. The report contained the following comments:

Staff Debtors - K118,974

The staff debtors had been disclosed as K118,974 at 31 December, 2015. This balance had increased by more than 50% compared to prior year as a result of more advances taken by staff during the year. Further, I noted that staff debtors amounting to K34,930 were 180 days old and represented 30% of the total staff debtors. The Authority did not have any specific policy guidelines on staff advances to give out staff advances and monitor staff repayments. I brought this matter to the attention of the Authority and the management responded as follows:

"We agree that Authority lacks specific written policies in the types of "Staff Advances" and "Repayment method". As you are aware, our Financial Procedures Manual is well due for a review and a proposal is now being worked on for management's deliberation. However, this project is subject to availability of funding."

Staff Salary History Cards

My review of the personnel files for certain selected officers of the Authority revealed that the management had not maintained the salary and history cards in their respective personnell files to confirm their appropriate remuneration rate for their employment. The proper filing of history and salary cards would enable the payroll staff to easily access the information and perform correct calculation of the staff entitlements. In the absence of proper and updated salary history cards, I was unable to confirm the salary and allowances calculations and the accuracy of leave records maintained by the Authority.

The Authority responded to my observation as follows:

"We admit that salary history cards were not maintained in individual personnel files. The Human Resource section is currently transferring employee salary and allowance including leave records onto their individual history cards."

56.3 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 2016 had been completed and the management responses were being awaited to finalise the audit reports.

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 *Salaries and Conditions Monitoring Committee 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 AND RECOMMENDATIONS

57.2.1 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 2014 was issued on 24 October 2016. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Opening Balances

The 2013 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, Cash at Bank, Equity and Cashflows. 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 balances stated in the financial statements of the University for the year ended 31 December 2014.

Cash at Bank – K12,221,167

The University maintained five (5) Bank Accounts; Grant, Internal Revenue, Special Purpose, Public Investment Program (PIP) and Menifor accounts which aggregate total amounted to K12,221,167. During my review I noted that:

- Adjustments of material amount were included as outstanding cheques and uncleared deposits totaling K1,871,298 and K752,634 respectively in the reconciliation report. I was unable to verify the nature of the material adjustments due to lack of records and proper explanation; and

- Bank reconciliations for the five (5) accounts above were not prepared, reviewed and verified by senior competent officers of the University on a timely basis.

As a result of the above observations, I was unable to neither ascertain the accuracy and completeness of cash at bank balance stated at year end nor place reliance on the effectiveness of the controls maintained by the University during the year.

Cashflows Statement

During my review and examination of the cashflows statement of the University for the year ended 31 December 2014, I noted an unreconciled difference of K3,340,643 between the cashflows statement balance of K15,561,810 and the cash and cash equivalent balance of K12,221,167 disclosed in the balance sheet. I was not provided with a consolidated cashflows statement capturing all the accounts maintained by the University. As such, I was unable to place any reliance on the cashflows statement presented as part of the financial statements.

Fixed Assets – K36,646,791

My review of the University's Fixed Assets account revealed the following:

- The University did not have an updated and complete Fixed Assets Register (FAR). I noted that additions for the year were captured and added to the cumulative balance carried forward from prior years. Due to the absence of a complete FAR, I was unable to perform necessary audit procedures to confirm the balance disclosed at the year end;

- There was no clear policy formulated by the University in relation to the acquiring of assets, capitalization and the disposal;

- Fixed assets were never been counted and tagged with asset numbers for identification and monitoring purposes. In the absence of fixed assets stock-take and tagging, assets that are idle, misplaced or stolen cannot be identified by the University;

- The University has not carried out any revaluation exercise on all the Buildings and Land owned and in its custody to reflect the current market value. As such, the University has not complied with *International Accounting Standards (IAS 16) (Measurement and Recognition)* requirement where valuation of property, plant and equipment should be done on a regular basis.

Consequently, I was unable to confirm the accuracy and valuation of the balance of K32,243,116 and K1,817,228 relating to Buildings and Land presented in the financial statements as at 31 December 2014; and

- Lack of proper coordination was noted between the Bursary and Planning divisions in relation to the Fixed Assets Management. I further noted that both divisions were using different Fixed Assets Software to record assets of the University that were never consolidated. MYOB was used in the Bursary Division and Kumul Software in Planning. The lack of coordination and proper management of the fixed assets create avenues for misuse and abuse of State property under the custody of the University.

Due to the 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 2014. I was also unable to place any reliance on the effectiveness of the controls surrounding the use and custody of the Fixed Assets of the University.

Work-In-Progress – K51,954,032

I noted that Work-In-Progress (WIP) balance was disclosed as K51,954,032 in the financial statements at year end. My review revealed that there were no proper schedules and records detailing the amounts classified under work-in-progress apart from the MYOB listings. There was no correlation between the source of funding and for which (earmarked projects) the funds were used for during the year. Further, the ongoing projects and projects continued from prior years cannot be traced to the funding source.

As a result, I was not able to ascertain and confirm whether the balance representing the Work-In-Progress was fairly stated in the financial statements.

Incorrect Classification – Work-In-Progress

I noted that an amount of K310,670 was paid to PNG Power for power supply to the University's new student dormitories as per PNG Power Ltd Ref No. PC/ED dated 26/02/2014. As per the letter, the payment was made under Refundable Capital Advance Agreement. Under this agreement, within 5 years if PNG Power recoups the money, it would refund the money back to the University. However, I noted that the payments were treated under work-in-progress. In addition, I noted that there was no work undertaken by PNG Power Ltd to date. The payment made to PNG Power for the specific work was not properly classified as receivable due to the refundable nature per the contract. As a result, the balance of the Work-In-Progress disclosed was not fairly stated in the accounts.

Recognition of Tuition Fees Income

Tuition Fees Income is recognised as income when deposit slips and tuition fee bank confirmations are provided to the University upon student registration. During my review, I noted that since the University was applying the accrual basis of accounting, a receivable account was supposed to be created and income earned upon the issuance of acceptance letters/invoices.

However, the University recognises income as and when school fee deposits are made. As a result, I was not able to comment on whether all fees charged for the year were received in full and income has been correctly disclosed in the financial statements. Further, I was not able to ascertain the amount outstanding at the year end.

Incorrect Classification and Posting of OHE Funding

During my review of the Tuition Fees income for the year ended 31 December 2014, I noted that the University was receiving sponsorship from the Office of Higher Education through Tertiary Education Scholarships Assistance Scheme (TESAS) and directly crediting income account instead of liability. This liability account will be reduced upon the disbursement of funds on behalf of the students. The TESAS funding is calculated per student head for Boarding and Lodging, Book Allowance, Beginning and End of Year Travels and Pocket Allowances. Except for the other OHE funding component, Boarding and Lodging should be classified as income as the University is providing these facilities. Due to the fact that the TESAS funding is being directly earmarked for student expenditures, a liability account should be created instead of income to reflect the correct treatment and definition of liability. As a result, I was not able to comment on whether the OHE funding received during the year was correctly classified, posted and correctly reflected in the financial statements as at 31 December 2014.

Deferred Income – K57,485,229

During my review of deferred income of K57,485,229 disclosed in the financial statements, I noted that the University did not have proper schedules and records substantiating this balance. I further noted that the balance was carried forward from prior years without adjustments. This coupled with lack of proper records relating to PIP Grants received in prior years compounded the problem to determine the accuracy and correctness of the balance. As a result, I was unable to determine whether the above balance was fairly stated and disclosed in the financial statements.

Staff Entitlements – K3,741,833

During my review, I noted that the staff entitlements *(Note #8)* was disclosed as K3,741,833, in the financial statements for the year ended 31 December 2014.

However, I was not provided with staff listing and supporting documents at the time of the audit to enable me to extend my audit procedures to confirm the accuracy and completeness of the balance. As a result, I was unable to confirm and conclude on the accuracy and valuation of the balance representing staff entitlements disclosed 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 am unable to and do not express an opinion on the financial statements of the University for the year ended 31 December 2014."

57.2.2 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 2014 was issued on 24 October 2016. The report contained the following observations:

Council Meeting Minutes

During my review, I noted that the Council met on three (3) occasions in 2014. However, minutes of the three (3) Council meetings provided for my review were neither signed by the minute secretary nor approved by the Chairman. In the absence of signed Council meeting minutes, I was unable to confirm whether the proceedings were properly recorded and whether issues deliberated were in the best interest of the University.

Accounting Skills and Knowledge

During my review, I noted that the University's accounting staff lack required knowledge and skills in accounting and other related areas to perform their day to day function. I also observed a need for training on computerised accounting system to equip them to discharge their duties effectively.

Operational and Financial Policy Manual

The University during the year under review had not produced approved Operational and Accounting Procedural Manuals, Operational Guidelines and Policies. These guidelines and policies should be formally established, well documented and communicated to all levels and functions of the organisation and be used in everyday work by all staff employed by the University.

In the absence of such guidelines and policies, I was unable to measure and comment on the standards of operations in relation to the systems and controls. Further, I was unable to confirm whether uniform procedures were followed in respective divisions.

Management responded to my finding as follows:

"The University has its Financial Policy Manual but it has not been updated since a few years back and it requires updating. However, we are currently operating complying with the Public Finance (Management) Act 1995 (PFMA) for our UOG operation. With an engagement of appropriate Financial Consultant by the UOG management and Council, it may be updated in future."

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

The *Public Finances (Management) Act 1995 Section 63(2)* and *63(4)* requires the University to furnish to the Minister before 30 June 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 had not prepared and submitted its financial statements for the year ended 31 December 2014 to my Office on a timely basis to enable me to complete the audit on time for tabling the report in Parliament before 30 June 2015. Accordingly, the University had breached *Section 63(2)* and *63(4)* of the *Public Finances (Management) Act 1995.* I have repeatedly brought this non-compliance of the above Section to the University's management to take necessary action.

Unbudgeted Expenditures

During my review of the recurrent budget, I noted that the University incurred K2,311,212 on unbudgeted expenditures in 2014. As a result, I was unable to state whether all factors were taken into consideration by the University before the budget was formulated. Expenditures not considered in the budget creates and provides the avenue for misapplication of public funds and at the same time a constraint to the cash flow available for the University's normal operations.

I brought this to the attention of the management and it ensured to comply with budgetary controls in the future.

Payments for Signing Cheques and Extra Duties

I noted instances where payments were made to senior officers of the University for signing of cheques and for other duties perceived as outside their job description. The amount authorized and paid during the year was K139,500 in total.

Of this amount, a total of K109,500 was paid to certain officers of the University as consultancy payments in the preparation and lodgement of tax returns for rebates. A total of K17,000 was paid to staff for processing of student school fee refunds and K13,000 was paid to the Bursar and Registrar for signing of cheques, perceived as being for extra duties. However, I was not provided with proper consultancy policy stating clearly the category of staff that are entitled and qualify to claim consultancy fees from the University. As a result, I was unable to ascertain the basis of which these payments were made to these officers. As the staff of the University were employed by the University as determined by their respective job descriptions and employment conditions, such compensation payments are considered improper and questionable.

Lack of Proper Contracts

My review of the contractual payments made by the University in 2014 revealed severe weaknesses and control breakdown in the payment process. Contract payments totaling K3,512,477 were made to suppliers without proper documentation and binding contracts. There were no proper tendering and procurement procedures followed in the awarding of the contracts. As a result, I was not able to confirm whether proper procedures were applied in determining the contracts. Consequently, I could not place reliance on the effectiveness of the controls surrounding the process of tendering, assessing and awarding of contracts by the University in 2014 and whether due care and value for money was taken into account while awarding contracts.

Lack of Proper Acquittal of Travel Advances

My review of travel and subsistence expenses amounting to K849,215 for the period ended revealed lack of travel acquittals by concerned staff of the University during the year. There was no Travel Advances Register maintained by the University in 2014. It is a requirement as per the *Financial Management Manual Part 20 paragraph 11.2* that cash advanced to officers travelling overseas on official duty must acquit travel advances within fourteen (14) days of return from duty travel. At the same time *Part 20 paragraph 12.10* of the Manual stipulates that advances to officers for domestic duty travels to be acquitted within seven (7) days of return from duty travel by submitting an acquittal form.

Lease Agreements not sighted

My review revealed that payments amounting to K148,832 were paid for rental of property during the year. However, no proper lease agreements between the landlords of the properties and the University were provided for my verification. There was no legal agreement between the University and the respective landlords thus place the University at risk of legal implications. As a result, I was not able to verify whether due care was exercised by the University in ensuring that proper agreements were undertaken.

Procurement Process

My review of the payment process of the University revealed that payments totaling:

- K521,064 were made without obtaining three (3) written quotations from three (3) different suppliers. It is a breach of *Financial Management Manual Part 12 Division 3,* which states that three (3) written quotations must be obtained for purchases valued between K5,000 and under K100,000; and

- K239,815 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 had been received by the University.

Due to above discrepancies, I was unable to place reliance over the controls surrounding the payment process.

The management concurred with my findings and agreed to take necessary action.

Payment of Contract Allowances

During my review of the personnel emoluments, I noted that some of the contract officers of the University were paid contract allowances through cheques instead of the normal payroll system without being correctly taxed as required by the *Income Tax Act 1959 (as amended)* which I viewed as means to avoid tax. I recommended the management to immediately cease such practices and comply with proper procedures in compliance to the *Income Tax Act 1959 (as amended)*.

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 examination of the financial statements of the University for the year ended 31 December 2015 had been completed and the results were being evaluated.

The University had submitted its financial statements for the year ended 31 December 2016 for my inspection and audit and arrangements were being made to commence the audit shortly.

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 textbooks, 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 Company had not submitted its financial statements for the years ended 31 December 2014, 2015 and 2016 for my inspection and audit.

58. UNIVERSITY OF NATURAL RESOURCES AND ENVIRONMENT (VUDAL)

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 financial statements of the University for the year ended 31 December 2014 was issued on 29 October 2016. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

1. Internal Control Environment

The University maintains its accounts on a spread sheet and then the accounting information are posted to the MYOB accounting system to compile its financial statements. During my audit, the University has made numerous material adjustments to financial statements and some of the reconciliations were done during the field audit. I also noted that lack of supervision in the Busary Division coupled with lack of skilled and competent staff to maintain proper accounting records has contributed to poor quality reports. Further, I observed that there was lack of co-ordination between Project Planning Division, which is responsible for major projects of the University and the Bursary.

As a result of weak internal control environment, financial statements were revised on numerous occasions. Consequently, I was unable to place reliance on the internal controls operated during the year under review.

2. Opening Balances

During my review, I noted that the 2014 general ledger opening balances did not agree with 2013 audited account balances of the University. The reason being that the MYOB accounting system had not been configured to roll over the year end closing balances to the new accounting period.

As a result, assets and liabilities of the University's opening balances did not reconcile to closing balance of 2013 audited accounts. Since 2013 closing balances enter into the determination of the results of the University for 2014, I was unable to ascertain the correctness and measurement of the account balances stated at the year end.

3. Valuation of Property, Plant and Equipment – K58,921,248

The University disclosed its Fixed Assets amount as K58,921,248 at 31 December, 2014 in the financial statements. I noted that the University did not acquire Fixed Asset Management System software to maintain and update its large record of fixed assets data but these details are maintained on a spread sheet. The maintenance of the large volume of this data on spread sheet may not be complete and accurate due to lack of audit trail. Further, the financial data are prone to alternation and manipulation when no audit trails are available.

The University did not carry out a valuation exercise on all of its property since the last valuation done in 1997. In the absence of such valuation of assets under the custody of the University, I was unable to determine the valuation, existence and completeness of the fixed asset balance as disclosed in the financial statements. I was also unable to comment and ascertain the correctness and accuracy of the depreciation charge disclosed as K3,255,756 in the financial statements.

4. Farm Livestock

I noted that the University's Vudal and Oro Campuses Farms have several herds of livestock and disclosed as K7,087,654 in the financial statements. During my review of the livestock assets, I noted a decrease in value of K4,633,567 (K7,105,384 to K2,471,817) from 2013 to 2014.

In accordance with the *International Accounting Standards 41 (IAS 41)*, any gains or losses in the movements of livestock must be taken up in the Statement of Financial Performance, however, this difference was not recognised in the Statement of Financial Performance. The Livestock assets do undergo natural changes and in this case, the University's Livestock biological transformation occurred through birth and growth. The movements of such transformation represent a gain or loss in the value of the assets that requires to be captured in the statement of financial performance as per *International Accounting Standard 41 Para 26* (*IAS 41 Para 26).*

5. Biological Assets – K7,087,654

In my review of the annual stock take on the biological assets, I noted that there was no independent confirmation such as the annual stock take count sheet for my examination. During my inspection of Warangoi and Vudal Cattle Ranch, I noted that the Cows were not tagged with any identification number to monitor their movements.

Further, the failure to tag cows and all other livestock with any form of identification makes the stock value unreliable. As a result, I was unable to comment on the quantity and the value of livestock disclosed as K7,087,654 in the financial statements at the year end.

6. Capital Work-In-Progress - K6,315,000

During my review of Capital Work-in-Progress (CWIP), I noted that the account has registered a decrease of K22,626,546 during the year under review. The University claimed that the Capital Work-in-Progress was based on the valuation carried out by a project engineer of the University. However, the University was unable to substantiate any documentary evidence to support the valuation. Further, I was unable to verify the account to which the corresponding debit entry was made. My review revealed that neither the fixed assets account nor the Statement of Financial Performance was affected. As a result, I was unable to state that Capital Work-in-Progress has been fairly stated in the financial statements.

7. Projects and Capital Works in Progress (PIP) Expensed-off

During my review of the University's Capital Works-in-Progress, I noted that costs associated with the projects were expensed off in the Statement of Financial Performance in respect of buildings totaling K3,000,000. These buildings were the University Library valued at K2,000,000, Taguba Office Complex at K400,000 and a new construction of two bedroom unit staff accommodation amounting to K600,000. The respective projects accounts in the general ledgers were not adjusted to account for the K3,000,000. As a result, expenses have been overstated by K3,000,000 in the financial statements.

8. Accrued Employee Expenses – K707,137

In my review of the Accrued Employee Expense, I was unable to confirm the amount disclosed in the financial statements due to the absence of general ledgers detailing the break-up of the accounts and the supporting employee fortnightly payroll listing.

As a result, I was not able to comment on the accuracy and completeness of the account balance of K707,137 stated at the year end.

9. Accrued Salaries Tax Liability – K2,444,065

During my review of Accrued Salaries Tax Liabilities, I noted that the University Accrued salaries tax expense accumulated to K2,444,065 at 31 December 2014. During my review, the ledger reconciliation statement and the employees fortnightly tax deduction documents were not provided for me to confirm the existence of this liability account.

I also noted that included in this aggregate amount was unpaid taxes owed to Internal Revenue Commission (IRC), however, I was not provided with any correspondence between IRC and the University regarding the outstanding tax liability. As a result, I was unable to state whether accrued tax expenses have been fairly stated in the financial statements.

10. Accrued Leave Entitlements – K2,562,476

During my review of the Leave Entitlements, I noted that a total of K2,562,476 was shown as liability comprising of Accrued Leave Fares of K152,285, Pro Rata Recreational Leave of K900,988**,** Long Service Leave of K1,146,092 and Accrued Recreational Leave of K363,108. However, I was not provided with a detailed listing and supporting documentation to verify the break-up of the figures as per the disclosure. As such, I was unable to comment on the completeness and accuracy of the accrued leave entitlements of K2,562,476 disclosed in the financial statements.

11. Payment of Employee Entitlements – K101,200

During the review of the employee entitlements, I noted that the former Vice Chancellor was paid his contract entitlement of K101,200 in 2014. I was not provided with source documents for my review and as a result, I was unable to comment whether the contract entitlement was properly calculated, checked and verified before his entitlement was paid.

12. Project Wages

During my review of the Project expenses, I noted that a large amount of expenses were incurred on project wages amounting to K2,285,109 in 2014 which represent 22% of total PIP grants received during the year. The projects include constructions and renovation of buildings and sports complexes at three different campuses, namely: Vudal, Maprik and Oro Campuses. During the construction phase, rural casual workers were employed from the local area with extended hours and was paid at rural casual wage rates.

I was not able to obtain sufficient appropriate audit evidence such as acquittal reports from the management on casual wages and employees details to validate the expenses incurred. As a result, I was unable to comment on the accuracy and completeness of the project wages expenses of K2,285,109 incurred in relation to various projects.

DISCLAIMER OF OPINION

In my opinion, because of the significance of the matters discussed in the preceding paragraphs, I am unable to and do not express an opinion on the financials statements of the University for the year ended 31 December 2014."

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 2014 was issued on 29 October 2016. The report contained the following matters:

1.0 Quotation for Goods & Services

During my review of various payments amounting to K2 million for supply of building material, purchase of equipment and consultancy, I noted that the University had not obtained three quotations as required under *Public Finances (Management) Act, 1995* and the *Public Finance Instruction Circular No. 2/2013* dated 20 May 2013. As a result, I was unable to state whether proper procedures were followed in selecting suitable suppliers and whether value for money was received for the goods and services provided to the University.

2.0 Non-submission of Financial Statements

The University had not prepared and submitted its financial statements to my Office before 31 March, 2015 to enable me to conduct the audit within the timeframe stipulated by the *Audit Act*. Consequently, the University had breached *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995.*

58.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the University had not submitted its financial statements for the years ended 31 December 2015 and 2016 for my inspection and audit despite numerous reminders.

59. UNIVERSITY OF PAPUA NEW GUINEA

59.1 INTRODUCTION

59.1.1 Legislation

The University of Papua New Guinea was established under the *University of Papua New Guinea 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.*

Comments in relation to the subsidiaries are contained in paragraphs 59A and 59B of this Report.

59.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

59.2.1 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 8 December 2016. The report contained Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Opening Balances/Comparatives

My report for the year ended 31 December 2012 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of cash on hand and at bank and other accounts which were qualified due to disagreement between the books and the financial statements. Consequently, I was unable to perform tests to verify the completeness and accuracy of the closing balance of assets (excluding cash) and liabilities disclosed in the Notes to the financial statements as at 31 December 2013.

The Financial Statements

The University's financial statements were prepared on cash basis. The financial data was derived from the accrual basis attaché accounting system after making adjustments for movement of liabilities. However, I was not provided with complete details of adjustments to verify whether any potential misstatement existed in the receipts and payments of the University for the year ended. I also noted that various manual journal entries were posted at the year-end and not on a monthly basis.

Further, the nature and volume of the transactions of the University has been significant and its properties were of great value. Therefore, cash basis of accounting seemed not appropriate for the University. The 2013 financial statements did not disclose sufficient financial information for me to determine the accurate financial position of the University.

Cash at Bank – K24,666,133 (2012: K5,857,553)

Note 8 of the financial statements disclosed cash on hand and bank balances of the various bank accounts of the University as at 31 December 2013. However, K44,725,034 was adjusted against the opening balance as prior period adjustment. I was not provided with adequate documentation for my verification to ascertain the appropriateness of the adjustment amount. As a result, I was unable to determine the completeness and accuracy of the bank balance as reported in the financial statements as at 31 December 2013.

Special Purpose Accounts – K3,079,189 (2012: K2,699,990)

I noted that the Special Purpose Account (SPA) appeared to operate on its own. All of SPA's transactions were not taken up as part of the receipts and payments of the University in the income statement. As these accounts relate to funds received for various projects funded by donor agencies and the Government, there must be accountability and subject to my audit as required by the *Public Finances (Management) Act.* The non-reporting of the SPA transactions for the year under review, renders the University's financial statements incomplete.

Therefore, I was unable to determine whether the financial statements submitted for my audit was complete with all the financial transactions taken place during the financial year.

Fixed Assets – K106,925,337 (2012: K105,567,525)

Note 9 of the financial statements disclosed fixed assets of the University at a book value of K106,925,337. The University did not maintain a proper fixed asset register during the year. The register was incomplete and details of the assets including descriptions, additions, disposals, and location of their existence were not recorded. Physical stock take of all the fixed assets of the University was not conducted in 2013 or in the past years in order to update the register.

I also noted that the details on Infrastructure Development Program (IDP) money spent by the Office of Higher Education (OHE) on various rehabilitation programs of the University were not disclosed under fixed assets. In addition, the work-in-progress on major constructions undertaken during the year was not adequately identified and disclosed.

Due to lack of physical stock count and revaluation, and in the absence of full disclosure of all the fixed assets of the University, I was unable to conclude on the cost, valuation, existence, ownership and the conditions of the fixed assets totalled K106,925,337 as reported in the financial statements.

Payments from Building Grants – K20,142,179 (2012: K15,141,629)

The financial statements disclosed K20,142,178 expended towards investments of PIP Fund (Building Grants), of which, K11,279,534 was paid to a contractor towards the second phase of UPNG Law School building. The contractor was engaged at a total cost of K30.45 million for construction of UPNG Law School building in three (3) phases. However, I was unable to validate the contract in the absence of the National Executive Council (NEC) approval. As a result, I was unable to confirm the validity, completeness and accuracy of the payments from building grants totalled K20,142,179 as reported in the financial statements for the year ended 31 December 2013.

QUALIFIED OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements of University of Papua New Guinea for the year ended 31 December 2013:

(a) give a true and fair view of the receipts and expenses and the results of its operations for the year then ended; and

(b) with exception of instances on non-compliance described under Other Matters, the financial statements have been prepared in accordance with the Finance Instructions issued under *Public Finances (Management) Act 1995.*"

59.2.2 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 8 December 2016. The report contained the following observations:

Non-Submission of Audited Financial Statements

The University has submitted its 2013 financial statements on 15 December 2015 to enable me to conduct the audit. The 2013 audit was commenced in March 2016 and completed by May 2016. However, the management responded to my management letter in August 2016. Non-submission of the Financial Statements by the University to my Office to enable me to complete the audit before 30 June of the following year was a breach of *Section 63(2) & Section 63(4) of Public Finances (Management) Act 1995.*

Financial Statements/Accounting System

The University's financial statements were prepared on cash basis. However, the financial information presented was derived from the data maintained on an accrual basis accounting from the attaché system. The financial statements submitted for my audit had failed to include additional information. The University was lacking proper management accounting system. A uniform management accounting system (accounting package) was needed by all the branches, divisions, and centers of the University to be integrated to enable timely production of system generated financial reports.

Students Fee

I noted that there were no proper reconciliations performed on the tuition fees collected from the external students against the number of students registered under the Distance Education Mode at UPNG and all other Open Campus Centers. Further, the fees collected from the Honiara Open Campus Students were not accounted for in the books of the University. The University should enforce adequate internal control measures on tuition fee revenue collections to ensure that all fees collectable from the external students are collected and accounted appropriately.

Associate Companies

I was not provided with audited financial statements of the University's associate companies, namely Univenture Limited and Unisave Limited. As a result, the 2013 financial results of the associate companies were not disclosed in the notes to the University's financial statements.

Further, I was not provided with all the necessary documentation to determine the correctness of the K1.0 million disclosed in *Note 13* as Univenture's Capital fund received from SPA. The management should maintain and provide adequate documentation in respect of this investment for my verification.

Personnel Emoluments

The University did not provide me with Department of Personnel Management approved staff ceiling and structure and Staff Establishment Register to confirm the total number of staff on strength to agree with payroll and other allowances being claimed and paid to Academics, part timers, non-academic staff and a large number of casual employees employed by the University during the year.

Further, salaries of staffs employed by the subsidiaries were paid from the UPNG Payroll which is not appropriate. Management claimed the salary expenses paid for the subsidiaries were subsequently recovered from the respective companies. However, I was not provided with relevant documentation to verify the management's claim. I recommended the management to keep the Department of Personnel Management approved staff ceiling, Staff Establishment Register and necessary approval for all casual employees engaged by the University for my future verification.

Capital Payments

A project manager was employed at a cost of K1.568 million for construction of the UPNG Law School Building which was to be completed in three (3) phases. However, the project manager was paid the full contract value (K1.57m) while the construction was completed only up to phase two (2). Further, approval of the Central Supply & Tenders Board (CSTB) was not made available for my review to validate the engagement of the project manager. I recommended the management that all relevant documentation from CSTB and NEC in respect of all projects funded by the State must be collected and made available for my future verification.

Home Ownership Scheme

The University had implemented National Home Ownership Scheme (NHOS) for its staff members. However, adequate information was not disclosed in the financial statements. Consequently, I was unable to confirm the status of this scheme as at 31 December 2013.

"The Section 39D of the University of Papua New Guinea Act 1983 stipulates that the University must at least once in every fiscal year, furnish to the Minister, for presentation to the National Executive Council (NEC), a report on NHOS devised and operated by the University."

I was unable to confirm whether this provision was complied with by the University.

Open Campus

As per Memorandum of Understanding between the University and the respective Provincial Governments, Open Campus/Centers in each province are to be provided with an annual grant/subsidy to meet the cost of respective Provincial Center Director's, staff salaries and routine maintenance, etc. However, I did not sight any evidence of accounting for the receipt of the provincial government grant and associated expenditures in the financial statements. With these omissions, the financial statements were understated in the respective receipts and payments.

The management should obtain necessary documentation from the respective open campus centers for the grants received from the respective Provincial Governments and the financial information must be accounted for in the books of the University.

Staff Records

The staff records were not well maintained and updated. Therefore, the information available was not accurate. As such, the computation of dues was not evident and calculation of the provisions and employee liabilities could not be accurate. I was unable to confirm the correctness of all entitlements due to incomplete information in the personnel files.

Liabilities

Due to errors and material limitation of scope mentioned in my earlier reports, I could not confirm the completeness and accuracy of the opening balances of Payroll Tax Liability and Loan from Special Purpose Accounts.

I was not provided with the proper reconciliations and relevant supporting documents to perform the audit procedures to determine the accuracy of the closing balances of these accounts as disclosed in *Note 10* of the financial statements. I recommended the management to provide all documentation to support the tax liability for my future verification.

59.3 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 2014 was in progress.

The financial statements of the University for the years ended 31 December 2015 and 2016 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 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, 2014, 2015 and 2016 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, 2014, 2015 and 2016 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 report 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 year ended 31 December 2014 was issued on 24 April 2017. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope due to Opening Balances

My audit report for the year ended 31 December 2013 was a Disclaimer of Opinion due to the limitation of scope on the opening balances. A number of general ledger accounts had unknown material amounts which related to prior years' opening balances. The unexplained opening balances had not been reconciled prior to migration from the former Magix accounting system to the current Pronto accounting system. I was unable to satisfy myself as to the accuracy and completeness of the opening balances of fixed assets, trade debtors, other current assets, asset revaluation reserve, trade payables, other payables, and long term borrowings. Since the opening balances entered into the determination of the results of operations and cash flows of Water PNG for the year under review, 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 2014.

Physical Verification and Valuation of the Board's Fixed Assets

The fixed assets reported at K216,914,625 represented a significant proportion (77%) of Water PNG's total assets. The Board had not performed physical verification and valuation of its property, plant and equipment in 2014 and the prior years. Therefore, I could not determine the fairness and correctness of the property values, and accurate information related to disposed, damaged or stolen fixed assets was not available. In April 2016, Deloitte Chartered Accountants presented valuation report on the Board's property, plant and equipment. However, the management could not effect the adjustments due to system technical issues. As a result, I was unable to confirm the existence, completeness, valuation and accuracy of Water PNG's property, plant and equipment as reported in the financial statements as at 31 December 2014.

Fixed Assets in Arawa, Bougainville – K1,343,092

Fixed assets held in Arawa, Bougainville at a value of K1,343,092 were included in the financial statements. I noted that the assets have been abandoned since the Bougainville crisis in 1989. Water PNG had not carried out any operational activities in the area since then, and most likely the assets are obsolete, damaged, misplaced or stolen. I noted that prior to finalization of the 2014 accounts the assets in Bougainville had been revalued to a K1 (one Kina) value with Board approval granted.

However, the management could not effect the adjustments due to system technical issues. As a result, I could not determine the appropriateness of the assets being included in the financial statements.

Financial Statements for Provincial Water Supply Projects

Water PNG with the assistance of the National Government and the Asian Development Bank initiated a number of Provincial Water Supply Projects (PWSP). Audited financial statements of these projects were not available for my review. Also, I could not obtain all relevant information and records relating to specific PWSP undertaken to determine their completion status and timely transfer to fixed assets. As a result, I could not determine value of PWSP that might have been completed and capitalized in 2014 and the prior years, and consequential impacts this might have on the financial statements of Water PNG for the year ended 31 December 2014.

Work-In-Progress – K24,282,056

Note 7 of the financial statements included Work-In-Progress (WIP) at K24,282,056. The value of the WIP comprised costs that incurred dated back to 2006 (K66,155), 2007 (K96,323), 2010 (K10,308,520), 2011 (K3,201,305), and 2012 (K2,010,758).

In addition, costs of completed building and fencing totalled K1,218,988 were still captured as WIP. I was not provided with status report, certificate of completion and all necessary documents related to the individual projects listed under WIP. As a result, I was not able to perform audit procedures to determine the validity and appropriateness of their recognition as WIP year after year without capitalizing. Additionally, I could not determine completeness and accuracy of the deprecation charges for the year and possible impacts this might have on the profit and loss statement for the year ended.

Trade Receivables – K27,938,922

The trade receivables was stated at K27,938,922 after allowing K13,212,910 as doubtful debts. The trade debtors per the schedule before allowing doubtful debt was K41,151,832 which did not agree with the system generated debtors aged listing balance of K36,850,642. This resulted to give a variance of K4,301,190. As a result, I was unable to confirm the accuracy of the trade receivables balance as disclosed in the financial statements as at 31 December 2014.

Other Current Assets: Accrued Income – K308,373

Note 3 of the financial statements included Accrued Income at K308,373. I noted from my review that there was no separate account in the general ledger which accounted for this balance. Also, no information and supporting documentation were available to substantiate this amount. As a result, I could not confirm the correctness of the amount reported in the financial statements.

Other Current Assets: Bank Suspense – (K1,052,810)

Note 3 of the financial statements included Bank Suspense at K1,052,810 (in credit balance). I noted from review that the amount was a net of various accounts as detailed below:

Bank Suspense Account	K1,595,258
Suspense Account	K 427,239
Magix OPB Account	(K2,766,708)
Total	(K 744,211)
Unconfirmed amount	(K 226)
Total	(K 744,437)
Disclosed as Accrued Income	(K 308,373)
Total	**(K1,052,810)**

I was not provided with schedules and listings to support the K1,595,258 in Bank Suspense account and K427,239 in Suspense account. The K2,766,708 (credit) in the Magix OPB account was a general ledger balancing figure and no one has any information in respect of the composition of this amount.

Also, an additional amount of K308,373 was added. A minor amount of K226 also added to bring the Bank Suspense balance at K1,052,810 (credit) as reported in the financial statement. Due to lack of relevant information and documentation, I was unable to perform my planned audit procedures. As a result, I could not ascertain the correctness and accuracy of the amounts disclosed in the financial statements as at 31 December 2014.

Inventory – K525,307

The inventories of Water PNG was reported at K525,307. Listings and reports relating to inventory count performed were not available. Also, the general ledger account was not reconciled. My 2013 audit reported that obsolete and rusted items were included in the listing. No documents were available to confirm actions taken to resolve the issue. Due to lack of appropriate information, I was unable to verify the accuracy of the inventory value reported in the financial statements as at 31 December 2014.

Trade Payables – K1,189,431

Note 5(a) of the financial statements disclosed trade payables at K1,189,431. The amount as disclosed in the financial statements had increased by K5,048 when compared with system generated aged creditors listing balance of K1,184,383. I was not provided with creditor listings and explanation to support the increase in trade payables.

Other Payables & Accruals – K19,118,855

The balance sheet reported Other Payables & Accruals at K19,118,855 which comprised of various liability account balances as disclosed in *Note 5(b*) of the financial statements. My review of the individual liability account balances revealed that they were not reconciled, not supported by creditor listings and lacked information and explanations. These could distort the accuracy of the Other Payables & Accruals balance.

The details are shown below:

a) Bank Overdraft – K2,478,958

Water PNG did not reconcile its general ledger bank account (cash book). I noted a significant unreconciled amount of K5,744,338 between the cash book and bank statement. In the absence of bank reconciliations, I was unable to perform audit procedures to ascertain accuracy of the Bank Overdraft balance of K2,478,958 as disclosed in *Note 5(b).*

b) Payroll Accruals – K952,935

Included in the Payroll Accruals was an amount of K581,912 from an account named *Payroll Deduction – Other* which was not supported by any form of schedules or listing to confirm the deductions. As a result, I could not comment on the accuracy of the Payroll Accruals balance of K952,935 as disclosed in *Note 5(b)*.

c) Other Accrued Taxes – K320,567

Supporting documents and listings were not available for this amount. Therefore, I could not confirm accuracy of the Other Accrued Taxes balance of K320,567 as disclosed in *Note 5(b)*.

d) Goods and Services Tax – K3,515,045

I noted from my review that K3,443,035 was a balance carried forward from prior years. There were no supporting documents or reconciliations showing outstanding taxes for years prior to 2013. As a result, I was unable to confirm the accuracy of the GST payable balance of K3,515,045 as disclosed in *Note 5(b)*.

e) Other Liabilities – K427,358

The Other Liabilities included K215,456 relating to outstanding purchase orders that was a balance carried forward from prior years. Also, included was K118,400 (debit balance) relating to cash adjustment done. Due to lack of information and documentation, I was unable to conduct a full review of the amounts. As a result, I could not confirm accuracy of the Other Liabilities balance of K427,358 as disclosed in *Note 5(b)*.

Bonds & Refundable Deposits – K4,129,241

Note 6 of the financial statements included Bonds & Refundable Deposits at K4,129,241. I was not provided with the schedules or listing of items making up the balance. I therefore was unable to perform all my planned audit procedures to verify and ascertain the accuracy of the balance as disclosed in the financial statements.

Deferred Income: Grants Received and not Spent (Current) – K3,496,711; (Non-Current) - K93,294

Note 8(a) and 8(b) of the financial statements disclosed grants received and not spent at K3,496,711 as current and K93,294 (debit) as non-current respectively. These were the amounts reported in the Balance Sheet as Deferred Income under Current and Non-Current Liabilities.

I noted that K211,143 was the advance payments by customers for water project licensing and compliance fees received in the current year. The remaining balance of K3,285,568 was a carried forward balance from prior years in respect of current liabilities. In respect of non-current grant the amount was a carried forward debit balance and there were no details and supporting documents to support these balances. Due to materiality of the unsupported balances, I could not comment on the accuracy of the Current and Non-Current Deferred Income balance as reported in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer 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 Water PNG for the year ended 31 December 2014."

60.2.2 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 2014 was issued on 24 April 2017. The report contained the following significant matters:

Compliance with Public Finances (Management) Act 1995

The audit of the 2014 statutory financial statements commenced in April 2016 which was after the deadline of 30 June 2015. As such, the Directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act 1995* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year.

Account Reconciliations

The reconciliations of the balance sheet accounts provided to me were in most cases incomplete. Most of the balances provided were only restatements of the general ledger balances without separate listings or schedules to support them. Almost half of the accounts were not reconciled which included the bank account balances.

General Ledger Account Reports

The system generated general ledger transaction reports provided to me were not user-friendly. The format provided did not have details of suppliers, payment reference, transaction description and GL account totals for all business units combined. I requested for a better organized report but was not addressed due to system capacity issues.

A lot of time was spent sorting the transactions in order to get the transactions organized in a meaningful format to conduct review of accounts. Furthermore, some of the account balances from the report did not agree with the trial balance.

Land Titles

I noted that Water PNG did not have title deeds for all the properties (land and buildings) it owns. Water PNG was unable to provide proper listing of the land and buildings it claimed to own. I brought this to the attention of management and it responded that Water PNG had delivered the Master Files of the lands to the Lands Department with a request to issue land titles. The management also advised that a Consultant will be engaged to pursue with the land title issue.

General Accounting and Internal Control Environment

The use of the Pronto accounting system and the internal control environment at Water PNG appeared to be deficient. The Board suffers from ineffective use of the Pronto accounting system due to lack of skills and training. The management was unable to reconcile and substantiate many of the general ledger balances. The result could be slow, ineffective, irreconcilable, and incomplete financial data as well as unreliable information for management. This increased the risk of suboptimal decision making, incomplete financial records and delayed financial statements.

I also observed that Water PNG lacked a proper documentation system. A number of essential documentation could not be retrieved or did not exist. This resulted in delays and even failures to provide the requested audit information.

60.3 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 2015 was in progress.

The financial statements of the Board for the year ended 31 December 2016 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, 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.

Comments in relation to the companies are detailed in paragraph 62 to 74.

62. AIR NIUGINI LIMITED

62.1 INTRODUCTION

62.1.1 Legislation

Air Niugini Limited was 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 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.

62.1.3 Subsidiary of the Company

The Company has a subsidiary Company, Link PNG Limited. Comments in relation to that Company are contained in paragraph 62A of this Report.

62.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

62.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2014 was issued on 27 September 2016. 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. 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 revaluation 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 did not perform a revaluation on the rotables and engines in 2014.

As a result, it is impractical for me to determine the value of rotables and engines as at 31 December 2014 and 31 December 2013 and as such, I am unable to determine what adjustments might have been necessary to the statement of financial position as at 31 December 2014 and 31 December 2013 and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2014 and for the comparative year ended 2013.

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 aircraft that it owns or finance leases in accordance with IAS 16, rather the aircraft 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 am 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 aircraft 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 at year end 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 Retained Earnings.

However, I am 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 2014 and for the comparative year ended 31 December 2013.

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 aircraft at each balance date. This may result in a number of different errors in depreciation calculations, and also in the revaluation increments when aircraft are subsequently revalued.

As with componentisation of assets, due to the aircraft 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 2014 and for the comparative year ended 31 December 2013.

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 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 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 qualification paragraphs."

62.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and the audit of the accounts and records of the Company for the year ended 31 December 2014 was issued on 27 September 2016. The report contained the following significant matters:

Inventory Aging Analysis

I noted that aging of inventory had not been set up in WinAir system and this issue has been carried over from the 2011 to 2013 audit findings. I 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 formal procedures and processes to identify obsolete stock for consumable stock and commercial stock is non-existence or is done on a manual adhoc basis by stores staff. No aging analysis being done by management may result in the valuation of inventory not being fairly stated as at year end.

Accounting for Previously Unrecorded Land

In 2013, the management identified 28 blocks of land for which the Company was paying rates and taxes but were not included in the Company's asset 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 both Property, Plant and Equipment and the Revaluation Reserve.

I had not been provided with title deeds of the properties, nor any information in respect of the properties original acquisition. The Company had not been able to calculate the effect of this proposed error on prior year financial statements and no restatement of prior year financial statements was 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 2014 and for the comparative year ended 31 December 2013.

Information Technology (GITC)

During the 2014 audit, I was unable to take full controls of the audit approach as many of the Airline's General IT controls were not effective. This resulted in a far more substantive audit approach including more intrusive and time consuming procedures. The lack of GITC's should also be a concern for the Airline as it indicates existence of higher possibility of misstatement or fraud. A number of specific deficiencies found have been detailed in my management letter to the Airline. It is important that a Company of Air Niugini size and complexity have a functioning internal control environment.

I recommended a holistic review of all IT controls (general and application) be conducted to find all deficiencies and a project be conducted to work towards eliminating those deficiencies.

Information Technology – Other

Other IT matters I have noted include:

- Existence of users who have been terminated from the Company;
- Absence of a formal disaster recovery plan;
- No IT asset management system in place;
- The administration of the Skychain (Cargo) application is still performed by the staff of the Cargo Group and not managed by the IT team and the IT team had no visibility of the status of the application;
- ANL is still using Microsoft Windows XP which is no longer supported by Microsoft; and
- There was a lack of IT resources and knowledge gaps across critical functions.

Some of these matters had been considered by management and were in progress. However, I believe a full assessment of the IT environment should be undertaken and appropriate action taken to ensure a secure and functional environment.

Appropriate Books and Records to be kept for Link PNG Limited

During the 2014 audit, I noted that income for the applicable routes of Link (PNG) Limited and the relevant direct expenditure had been booked to a separate trial balance. However, it appeared that supporting documents for the operations of the subsidiary or any balance sheet of its operations were not maintained. There was no management or operational contracts between the two companies including assignment and responsibility of assets and liabilities in 2014.

Without appropriate documentation, the assets and liabilities, income and expenses may not be recorded correctly in the books. Sufficient charges may not be recharged from Air Niugini Limited to Link (PNG) Limited. Therefore, I recommended all required contracts for statutory, regulatory and operational purposes should be put in place immediately.

Fixed Asset Register on Cost Basis

IAS 16, Property, Plant and Equipment, requires that if items of property, plant and equipment are stated at revalued amounts, the Company should disclose for each revalued class of property, plant and equipment, the carrying amount that would have been recognized had the assets been carried under the cost model.

I noted that this was not disclosed and that the management was not able to provide me with an asset register to calculate such a balance. Fixed asset register and depreciation schedule based on original cost must be maintained.

Operating Leases

During my review, I noted that some of the operating leases of the Company had escalation rates as per *IAS 17, Leases*, *"Operating leases shall be recognized as an expense on a straight-line basis over the term of the lease term unless another systematic basis is more representative of the pattern of the user's benefit"*.

The Company did not book its rent expense on a straight-line method but instead based on the invoice received from the vendors. I estimated a K11 million liability was not booked should operating leases were booked on a straight-line basis.

I understood that the management did not believe in following IAS 17 appropriately reflects the economic basis of the transaction. However, it is my opinion that the Company's method is not compliant with IAS 17.

Unearned Executive Club Membership Fee

During the year, the management reversed K4.4 million liability for revenue received in advance associated with executive club membership fees. Membership fees are required to be recognized as earned. As memberships do not match the financial year, membership fees paid included an unearned portion. Thus, the unearned revenue liability should be reinstated.

I recommended to management that proper revenue accounting treatment should be applied and reinstatement of the liability. Management agreed to correct this in the 2015 Financial Statements.

Annual Leave taken by Pilots

During my audit, I noted that there was major annual leave reconciliation carried out for the pilots in 2014 due to leave taken by pilots recorded in the pilots system *"Geneva"*, but not being recorded in the Airline's payroll system, CHRIS21. The reconciliation of the two systems had not been done for a number of years. An adjusting entry of K8 million was taken up in the 2014 financial statements.

I recommended the Company to perform monthly reconciliation for leaves taken by pilots. In addition, flight operations team (GENEVA) should liaise with the Payroll team (CHRIS 21) to minimize the risk of annual leaves not taken properly. I understood that management had corrected this in 2015.

Adjustment taken to match IATA Deposit's confirmation compare to General Ledger

During my audit, I noted a reconciliation and adjustment totalled K7.1m in outward Billing suspense taken up in 2014. This was due to realized foreign exchange sitting into the account coming from previous years brought by the incorrect entries being made at payment date.

I recommended IATA balances reconciled on a monthly basis including movement in balances associated with foreign exchange. I understand that the management has now implemented a monthly reconciliation.

Useful Life of Buildings

During my review, I noted that the useful lives of land and buildings appear to be inconsistent with most standard expectations of commercial and residential buildings. Although, there may be reasons for the useful lives used (e.g. asset acquired part way through its life), these reasons were not documented and current management were unaware as to the reason for these useful lives have used. No assessment had been conducted to determine the remaining useful life on these assets.

I believed an assessment of useful lives of all building should be conducted as soon as possible. Management should also consider reassessment of useful lives of all PPE to ensure they are appropriate.

Inadequate Provision of Bad Debts

I noted that management had moved towards a specific provision basis when calculating the provision for bad and doubtful debts. However, I do not believe the work performed to substantiate the recovery of over-due receivables was sufficient.

Further, with the large amount of debtors, it would be difficult to assess each individual debtor on a consistent basis without appropriate processes in place. I observed management was working on improving the process for the 2015 year end. I recommended a more robust process be put in place to ensure all required provisions are taken up.

Falcon Jet

In 2013, K9 million received from the Government for the Falcon Jet was incorrectly taken up as revenue by the Company instead of being applied against trade debtors and revenue received in advance. This was corrected in the 2014 Financial Statements. I believe the error was as a result of a number of factors; there was a large unpaid balance receivable from the Government for the operation and maintenance of the Falcon Jet; the nature of the payment was not advised by the Government when paid; and lack of understanding by the Government of the amounts owed by the Government to the Company or the charges they incur each year even though management agreements were in place.

I recommended that the Government and Company to agree on what prior year charges are payable and are cleared; and that payments for future charges are agreed and paid on a timely basis in accordance with the management agreements in place.

Internal Audit Reports

My review of the Internal Audit Reports revealed existence of a number of control weaknesses in the operational management of the Company for the year 2014. I recommended management should take appropriate measure to address all the internal control weakness presently exists as per the Internal Audit Reports and monitor the operation of the controls.

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 years ended 31 December 2015 and 2016 were in progress.

62A. LINK-PNG LIMITED (Subsidiary of Air Niugini Limited)

62A.1 INTRODUCTION

62A.1.1 Legislation

The Link-PNG Limited came into existence on 26 June 2014 after the name changed from PNG Link Limited. Link-PNG Limited was incorporated under the *Companies Act 1997* on 4 May 2010. This Company was bought by Air Niugini Limited from Steamships Limited on 05 August 2014 for a consideration of K100.

This Company is a 100% subsidiary of Air Niugini Limited. The Company commenced the business of air travel for the PNG Domestic markets since November 2014.

62A.1.2 The Objective of the Company

The key objective of the Company is to:

- Be the leading domestic airline in Papua New Guinea, delivering safest, cost effective air travel to the communities.

62A.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 2015 and 2016 were in progress.

63. KUMUL PETROLEUM HOLDINGS LIMITED (formerly NPCP Holdings Limited)

63.1 INTRODUCTION

63.1.1 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. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Act 2015* the issued shares of the Kumul Petroleum Holdings Limited previously owned by Independent Public Business Corporation (IPBC) was transferred to the Kumul Petroleum Trustee. On 25 September 2015, the Company changed its name from NPCP Holdings Limited to Kumul Petroleum Holdings Limited.

63.1.2 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*.

63.2 AUDIT OBSERVATIONS

63.2.1 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 2016 was issued on 5 June 2017. The report did not contain any qualification.

63A. EDA OIL LIMITED (Subsidiary of Kumul Petroleum (Development) Limited which is a subsidiary of Kumul Petroleum Holdings Limited)

63A.1 INTRODUCTION

This Company was incorporated under the *Companies Act*. The Company has two (2) shares and Petromin was the 100% shareholder of the Company. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Bill 2015*, Eda Oil Limited and Kumul LNG Limited were transferred to Kumul Petroleum (Development) Limited, a subsidiary of Kumul Petroleum Holdings Limited on 30 June 2016 by Petromin PNG Holdings Limited.

63A.1.2 Objective of the Company

The main objective of the Company is the investment in development and production of hydrocarbons in the Moran Joint Venture in Papua New Guinea.

The Company has a direct participation on the Moran Petroleum Project, through 20.3% License Interest it directly holds in PDL 5 and an initial 11.275% unit interest in unit Operation under MOUA and an indirect participation in the PNG LNG Project through its holdings of the only issued share in the share capital of Kumul LNG Limited.

63A.2 AUDIT OBSERVATIONS

63A.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 2016 was issued on 5 June 2017. The report did not contain any qualification.

63B. KUMUL LNG LIMITED (Subsidiary of Kumul Petroleum (Development) Limited which is a subsidiary of Kumul Petroleum Holdings Limited)

63B.1 INTRODUCTION

This Company was incorporated under the *Companies Act*. On 19 May 2009 the Company was incorporated under the name of Kumul PNG Limited. The Company has one (1) share and EDA Oil Limited is the sole shareholder of the Company. Eda Oil Limited is 100% subsidiary of Petrolmin PNG Holdings Limited. This Company was established as a special purpose entity to hold Petromin's interests in the LNG Projects. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Bill 2015*, both Eda Oil Limited and Kumul LNG Limited were transferred to Kumul Petroleum Holdings Limited on 30 June 2016 by Petromin PNG Holdings Limited.

63B.1.1 Objective of the Company

The Company has 0.20% interest in the PNG LNG Project. The Project interest is connected to EDA Oil Limited's license interest in PDL 5 (20.5% License Interest in PDL 5) and the Moran Petroleum Interest.

63B.2 AUDIT OBSERVATIONS

63B.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 2016 was issued on 05 June 2017. The report did not contain any qualification.

63C. KUMUL PETROLEUM (DEVELOPMENT) LIMITED (formerly NPCP Pipeline and Gas Supply Limited) (Subsidiary of Kumul Petroleum Holdings Limited)

63C.1 INTRODUCTION

63C.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. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Development Limited. On 25 September 2015 the Company changed its name from NPCP Pipeline and Gas Supply Limited to Kumul Petroleum Development Limited. On 28 January 2016 the Company changed its name from Kumul Petroleum Development Limited to Kumul Petroleum (Development) Limited.

63C.1.2 Objective of the Company

The objective of the Company is to provide pipeline facilities to the upcoming various Liquefied Natural Gas (LNG) projects. In 2014, the Company 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.

63C.2 AUDIT OBSERVATIONS

63C.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 2016 was issued on 5 June 2017. The report did not contain any qualification.

63D. KUMUL PETROLEUM (INVESTMENTS) LIMITED (formerly NPCP Investments Limited) (Subsidiary of Kumul Petroleum Holdings Limited)

63D.1 INTRODUCTION

63D.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. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Investments Limited. On 25 September, 2015, the Company changed its name from NPCP Investments Limited to Kumul Petroleum Investments Limited.

63D.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 provided by UBS to Kumul Petroleum Investments Limited and Kumul Petroleum Holdings Limited.

63D.2 AUDIT OBSERVATIONS

63D.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 2016 was issued on 5 June 2017. The report did not contain any qualification.

63E. KUMUL PETROLEUM (KROTON) LIMITED (formerly National Petroleum Company of PNG (Kroton) Limited) (Subsidiary of Kumul Petroleum Holdings Limited)

63E.1 INTRODUCTION

63E.1.1 Legislation

This Company 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 (PNG LNG) 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. On 25 September 2015, the Company changed its name from National Petroleum Company of PNG (Kroton) Limited to Kumul Petroleum (PNG LNG) Limited. On 28 January 2016 the Company changed its name from Kumul Petroleum (PNG LNG) Limited to Kumul Petroleum (Kroton) Limited.

63E.1.2 Objective of the Company

The objective of Kumul Petroleum (PNG LNG) Limited is to invest in the PNG LNG Project as PNG State's nominee holding 16.57% Equity in the Project.

63E.2 AUDIT OBSERVATIONS

63E.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 2016 was issued on 5 June 2017. The report did not contain any qualification.

63F. KUMUL PETROLEUM (PIPELINE) LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)

63F.1 INTRODUCTION

This Company was incorporated under the *Companies Act*. On 30 October 2015 the Company incorporated under the name of Kumul Petroleum Pipeline Limited. On 28 January 2016 the Company changed its name to Kumul Petroleum (Pipeline) Limited. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum (Pipeline) Limited.

63F.1.2 Objective of the Company

The Company holds the interest of Kumul Petroleum Holdings Limited in the Western Pipeline (Strategic Pipeline) Project.

63F.2 AUDIT OBSERVATIONS

63F.2.2 Comments of 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 2016 was issued on 05 June 2017. The report did not contain any qualification.

63G. KUMUL PETROLEUM (TECH & ADVISORY) LIMITED
(formerly NPCP Technical Institute and Consulting Limited) (Subsidiary of Kumul Petroleum Holdings Limited)

63G.1 INTRODUCTION

63G.1.1 Legislation

The Company was incorporated under the *Companies Act* on 8 September 2014 in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Technical Institute and Consulting Limited. On 25 September 2015, the Company changed its name from NPCP Technical Institute and Consulting Limited to Kumul Petroleum Technical Institute and Consulting Limited. Subsequently, the Company changed its name from Kumul Petroleum Technical Institute and Consulting Limited to Kumul Petroleum (Tech & Advisory) Limited on 28 January 2016.

63G.1.2 Objective of the Company

The principal objective of the Company is to provide professional and other business services. In 2015, the Company bought 12.5% shares in Orion Enga Children's Fund JV Limited. Orion Enga Children's Fund JV owns South Pacific Employment Institute which is registered as a business name which runs the Port Moresby Technical College (now known as Kumul Petroleum Academy).

63G.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 2016 was completed and the results were being evaluated.

64. LIVESTOCK DEVELOPMENT CORPORATION LIMITED

64.1 INTRODUCTION

64.1.1 Legislation

The Livestock Development Corporation Limited was incorporated under the *Companies Act.* The share capital is wholly owned by the National Government.

64.1.2 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.

64.2 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, 2014, 2015 and 2016 for my inspection and audit.

I expressed my concern to the Minister for Agriculture and Livestock through my letters dated 12 April 2015 and 26 April 2016 for the long delay by the Corporation in submitting its financial statements to enable me to perform the audit for the years stated above.

65. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED

65.1 INTRODUCTION

65.1.1 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.

65.1.2 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.

65.2 AUDIT OBSERVATIONS

65.2.1 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 2012, 2013 and 2014 were issued on 6 October 2016, 16 March 2017 and 1 June 2017 respectively. These reports contained similar Disclaimer of Opinions, hence, only the 2014 report is reproduced.

"BASIS FOR DISCLAIMER OF OPINION

Opening Balances

My report for the year ended 31 December 2013 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances in respect of related party receivables investments in Coleman Properties, investments in Ramu Nickel and short term deposits. Since these opening balances entered into the determination of the results of operations and cash flows of the Company and the Group in 2014, I was unable to determine whether adjustments to the financial position, results of operations and cash flows might have been necessary for the year ended 31 December 2014.

Short Term Deposits

The statement of financial position as at 31 December 2014 reported short term deposits of K6.233m in various banks for both the Company and the Group.

The short term deposits comprise of a number of individual deposits with various financial institutions and in various currencies. The direct confirmations obtained from these financial institutions for the year ended 31 December 2014 varied from the amounts recorded by the Company and the Group. In aggregate, the amounts confirmed by the financial institutions were greater than that recorded in the statement of financial position of the Company and Group by K0.356m. However, the financial statements have been adjusted to reflect the amounts as confirmed by the financial institutions through an adjustment to the income statement without proper reconciliation. Therefore, I was unable to determine whether the variances were related to unrecognised foreign exchange differences or other matters.

As a result, I was unable to conclude on the appropriateness of the adjustment recorded and whether further adjustments to the financial statements might be necessary in respect of the variances identified.

Investments

Note 11 of the financial statements disclosed the total investments at K57.483m (Company) and K74.865m (Group) as at 31 December 2014.

- Included in K8.383m (Company and Group) (2013:K7.453m) was the investment made in Pacific Balance Fund (PBF). The audit opinion of the PBF financial statements for the year ended 31 December 2014 was qualified in respect of the total number of units issued. As this impacted the value per unit used by the Company in valuing the PBF investment, I was unable to determine whether adjustments to the financial statements might be necessary in respect of fair value gain on the investment in PBF for the year reported in the statement of comprehensive income and the investment balance in the statement of financial position.

- Included in K16.155m (Group) (2013:K15.002m) relates to projects under development, representing the Group's interest in the Ramu Nickel Project. This interest is held by the Company's subsidiaries, Mineral Resource Madang Limited and Mineral Resources Ramu Limited and is recorded on consolidation in the Group financial statements. I was not provided with sufficient and appropriate audit evidence to confirm the proper valuation of the investments as at 31 December 2014. Consequently, I was unable to determine whether adjustments to the financial statements might be necessary in respect of the carrying value of this investment.

- Included in K7.420m (Company and Group) relates to an investment in Pacific International Hospital (PIH) which was acquired in 2013.The investment has been classified as an available for sale financial assets and in accordance with the Company's accounting policy should be carried at fair value, however, has been recorded at cost in the financial statements of the Company. I was not provided with sufficient and appropriate evidence to support the carrying value of the investments as at 31 December 2014. As a result, I was unable to determine whether adjustments to the financial statements might be necessary in respect of fair value gain or loss on investments in PIH for the year reported in the statement of comprehensive income and the investment balance reported in the statement of financial position.

Receivables

Note 8 of the financial statements disclosed the total receivables at K55.944m (Company) and K39.758m (Group) as at 31 December 2014.

- Of the above receivables K3.899m (Company and Group) represent tax refundable by the Internal Revenue Commission (IRC) to Mineral Resource Porgera Limited (MRP), a former subsidiary of the Group. This balance is the subject of dispute relating to a transaction which occurred in 1999 and the recent correspondence I have been provided in support of this balance was from 2011. I was unable to obtain sufficient and appropriate audit evidence in respect of the recoverability of this balance. As a result, I was unable to determine whether adjustments to the financial statements might be necessary in respect of the accuracy of recoverable value of this balance.

- The above receivable includes K21.504m (Company and Group) relates to a loan given to Speedy Hero Development Limited. I was provided with the audited financial statements of Speedy Hero Development Limited which shows an amount payable to the Company of K62.167m (2013: K52.266m) as at 31 December 2014. I was not provided with sufficient information to reconcile the difference between the two balances and other relevant documentation to support the balance recorded by the Company. Consequently, I was unable to determine whether adjustments to the financial statements might be necessary in respect of the carrying value of this receivable.

- Of the above receivables K1.151m (Company and Group) relates to amounts receivable from related parties for which supporting documentation to confirm the existence and accuracy of the balance were not made available for my review. As a result, I was unable to determine whether adjustments to the financial statements might be necessary in respect of the recorded values of these balances.

Related Party Balances

The statement of financial position as at 31 December 2014 includes non-current loans from related parties of K11.728m (Company) and K11.727m (Group). Included in this amount are amounts payable to related parties of K9.144m, for which no supporting documentation to confirm the existence and accuracy of these balances were made available for my review. As a result, I was unable to determine whether adjustments to the financial statements might be necessary in respect of the recorded values of these balances.

Income Tax

The matters mentioned in the above qualifications may impact on the financial performance of the Company and the Group and accordingly, the basis for the calculation of the income tax position and deferred tax balance may not be accurate as disclosed in the financial statements. As a result, I was unable to determine the appropriateness of the income tax balances mentioned in *Note 7* to the financial statements.

Financial Statements Disclosures

Due to the limitation of information available, I was unable to comment whether the financial statements presented all matters that are required to be disclosed under *International Financial Reporting Standards (IFRS)* or the *Companies Act*.

As a result of the matters above, I was unable to determine whether any adjustments might have been found necessary to the statements of financial position as at 31 December 2014 or the statement of comprehensive income, statement of changes in equity, or the statement of cash flows for the year then ended.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs above, 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 Mineral Resources Development Company Limited for the year ended 31 December 2014.

OTHER MATTERS

Compliance with Public Finances Management Act 1995

The financial statements for the year ended 31 December 2014 was approved and made available on 20 April 2017. The directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act 1995* for audited financial statements of public bodies to be furnished to the Minister before 30 June of the subsequent year."

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 2015 and 2016 were in progress.

66. MOTOR VEHICLES INSURANCE LIMITED

66.1 INTRODUCTION

66.1.1 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 (MVIL) 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.

66.2 AUDIT OBSERVATIONS

66.2.1 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 2015 was issued on 6 June 2017. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Non-Consolidation of Subsidiaries

Note 16(ii) of the financial statements disclosed the Investment in subsidiaries. The investment related to 100% and 52% of shareholdings in Pacific MMI Limited and Pacific Re Limited respectively. I noted that the shareholdings in the subsidiaries as at 31 December 2015 exceeded 50% therefore consolidated financial statements for the group is necessary as required by *IAS 27, Consolidated and Separate Financial Statements*. However, no consolidated financial statements had been prepared and submitted for my review. As a result, the Company had not complied with the requirements of the *IAS 27*.

Investments in NCDC Road Investment

Note 16(iii) of the financial statements reported Non-Current Investments under other investments totalled K60,686,286. Included in this investment was the Grant of K50,000,000 paid to the National Capital District Commission (NCDC) under Road Investment Grant at an annual interest rate of 15%. Clause 6 of the agreement states that K50.0 million paid by MVIL to NCDC was a Grant.

The Board of MVIL had approved for this Grant on 6 July 2013. However, the Board Minute was not signed by the Chairman and Secretary of the meeting to validate the resolution made. In addition, approval of the Minister for Finance in respect of this investment was not made available for my verification. As a result, I was unable to determine the appropriateness of including the K50.0 million as investments in the financial statements as at 31 December 2015.

Fixed Assets

Note 13 of the financial statements disclosed fixed assets totalled K37,041,477. Included in the Fixed Assets was Work In Progress (WIP) valued K20,760,099. This amount was spent by the Company between 2008 and 2011 towards property development at Koki Heights Land (KHL). However, the project was scrapped upon advice of the Investment Manager. A Consultant firm that reviewed this project advised that the project had failed and the full amount should be provided for a write-off. However, the Company still reported the value of the failed project as WIP in the financial statements. As a result, the fixed assets at the value of K37,041,477 as reported in the financial statements as at 31 December 2015 could be overstated.

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 2015:

(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 other matters paragraph, 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."

66.2.2 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 2015 was issued on 6 June 2017. The report contained the following observations:

Overseas Investments – Woodlawn Capital Limited

Note 16 of the financial statements disclosed a total amount of K412,950,444 as Investments. Included was K48,944,255 which was the remainder of the K100 million overseas investment in Woodland Capital Limited, Australia.

My review of the initial investment of K100 million noted that K51,281,946 had been refunded to MVIL from the Lawyers Trust account. The Company then made a provision of K38,257,972 on the residual value of K48,944,255 leaving a balance of K10,460,082 in the Gadens Trust Account, Sydney. This resulted in MVIL making a loss of K38,257,972 on the overseas investment in Woodland Capital Limited.

Penalty for Non-Compliance of Agreement

In 2013 under *Note 10* to the financial statements reported K22,861,850 as penalties and fines in relation to monetization of BSP shares, and as liability to Nominees Niugini Limited for non-compliance of monetization agreement. I was not provided

with all relevant documentation in respect of this claim for my review to determine the validity of this provision.
This liability was discharged in April 2014 by Garnisheed order out of MVIL BSP bank account. I was advised by MVIL management that they have no idea whether the money is with IRC or not, but informed that there is currently a case against Nominees Niugini Limited.

Non-Compliance with the notification issued on Investment Criteria

Motor Vehicles Insurance Limited (MVIL) was a successor company under the *Motor Vehicles (Third Parties Insurance) Act*. The Finance Minister, in accordance with powers granted by *Motor Vehicles (Third Parties Insurance) Act*, had laid down the following criteria with regard to the composition of investments made by MVIL:

	Per Notification	**At 31-12-2015**
Government Securities	15% - 25%	Nil
Term Deposits	20% - 30%	25%
Commercial Equities	25% - 35%	52%
Property	20% - 30%	-
Long Term Development		
Loans/Debentures	10% - 20%	-
Subsidiaries	Nil	6.4%
Overseas Investments	Nil	16.6%

From the above table, it is evident that MVIL had not complied with the criteria laid down in the notification.

Further, per investment policy the company should not invest in any one company more than 50% of the paid up capital of that company. However, MVIL has owned 100% equity in Pacific MMI Limited and 52% in Pacific Re Limited by which it did not complied with the investment policy.

I brought this matter to the attention of management and I was advised that;

"the 50% of the shares in Pacific MMI going to be divested to prospective buyer. However, to date the investment was not divested as earlier advised."

Non-Compliance with Income Tax Act

No variation forms from the Internal Revenue Commission for the exemption of motor vehicle allowance and housing allowance (other than those who participated in NHOS) were made available for my verification. As a result, I was unable to determine whether appropriate taxes had been deducted from the payment of K3,233,464 as housing allowance and K363,687 as motor vehicle allowances during the year as to comply with the *Income Tax Act*.

I brought this to the attention of management and I was advised that;

"Due to previous management oversight, this area has been ignored and therefore, a lot of the affected staff have enjoyed the gross benefits without any tax deductions reducing the take home benefit."

Budget Vs Actual

The Company had exceeded the budget for the year by K8,318,778. The following major expenses indicated poor management control over its operational expenses.

Expenses	Budget Kina	Actual Kina	Variation Kina
Communication	550,000	1,872,873	1,322,873
Director's Travel	220,000	587,966	367,966
Travel & Accommodation	880,000	1,698,999	818,999
Medical	198,600	771,135	573,135
Service fees	44,000	464,707	424,707
Entertainment	55,000	236,907	181,907
Premises Security	638,000	1,390,861	752,861
Welfare & Amenities	49,500	373,875	324,375

I brought this to the attention of management and I was advised that;

"Management notes the recommendations made. However, there were areas where there were savings and the overall result was favourable."

Provision for Sick Leave

I noted that *Clause 20(b)* of the employment contract of senior managers instigated the provision of sick leave entitlement and further provided that they can cash the sick leave entitlement whether they are sick or not. As a result of this contractual obligation accrued sick leave of contract officers was brought forward and encashed at the new contract or beginning of the following year. However, cashing of sick leave does not comply with *IAS 19* that states unused sick leave can be carried forward for one calendar year only after which the provision must be written off. I brought this to the attention of management and they responded that;

"over the years and in line with HR policy, contract officers have been entitled to redeem in full or otherwise the reminder of the un-used sick leave balance on or after the employment anniversary dates. Therefore, we believe this could be treated in the same line with other employment benefits."

66.3 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 2016 was in progress.

67. NATIONAL AIRPORTS CORPORATION LIMITED

67.1 INTRODUCTION

67.1.1 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.

67.1.2 Functions of the Corporation

The functions of the National Airports Corporation Limited are derived from *Section 132* of the *Civil Aviation Act*.

67.1.3 Subsidiary of the Corporation

The Corporation has a subsidiary company, *Airport City Development Limited*. Comments in relation to that company are contained in paragraph 67A of this Report.

67.1.4 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 are contained in my **Special Project Audit Report to Parliament**.

67.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

67.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies 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 September 2016. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Fixed Assets – K11,193,548

I refer to the *Note 21* to the financial statements disclosed the land and building transferred to National Airport Corporation Limited from the former Civil Aviation Authority in 2010. These assets have not been recorded in the Company's books as at 31 December 2011 as the cost or value could not be reliably measured.

Though, a resolution had been made between the concerned parties in this regard, the cost or valuation amounts have yet to be included against these assets. Therefore, I was unable to ascertain the completeness and accuracy of the fixed assets totalled K11,193,548 as reported in the financial statements as at 31 December 2011.

QUALIFIED OPINION

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

(a) the financial statements of National Airport Corporation 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) proper accounting records have been kept by the Company; and

(c) I have obtained all the information and explanation as required."

67.2.2 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 2011 was issued on 27 September 2016. The report contained the following significant matters:

Compliance with *Public Finances (Management) Act 1995*

The financial statements for the year ended 31 December 2011 were approved and issued on 23 October 2015. The directors did not meet the deadline set by *Section 63* of the *Public Finances (Management) Act* for audited financial statements of public bodies and companies owned by the State to be furnished to the Minister before 30 June of the subsequent year.

Revenue

I noted that a number of reversal journals were passed against the landing charges account, however, I was not provided with relevant supporting documents and credit notes to support the reversal. Though the variance was only K117,604 this would lead to issue of credit notes without the necessary approval and revenue could be misstated. I recommended to the management to properly file all the credit notes raised and journals passed for future verification, however, no response was provided.

Petty Cash

In 2011 the Company set up a petty cash fund totalled K18,000 and was kept in various sections. My review revealed that the petty cash of K10,000 kept by the Finance Office for Head Quarters X-mas function was expended but never acquitted. I was unable to verify whether this money were used in accordance with the Company's policy as the acquittals and reconciliation were not provided. I advised that this control deficiency may lead to possible misappropriation.

ANZ Imprest Accounts

National Airports Corporation had five (5) imprest accounts with ANZ Bank for a total amount of K70,000 as at 31 December 2011. However, no reconciliation or acquittal was made available for my review. As a result, I was unable to verify whether the funds were properly accounted for in line with the Company's accounting policy manual.

Business Visa Card

My review of the bank audit confirmation certificate reveled that there were five (5) Visa Credit cards issued by ANZ bank to the Company. The management claimed that out of the five cardholders, only two (2) of the cardholders were executives during the year. I further noted that the two (2) cardholders' outstanding balances were not recorded in the general ledger.

I brought this issue to the management to liaise with the bank and investigate why the other three non-employees of the Company were given VISA credit card under NAC account. No response from management was received at the time of this report.

Lease Agreements

Some of the lease agreements entered into between the Company and tenants were not executed by both parties as no signatures were affixed on the lease agreements. As such, these agreements cannot be enforceable by the Company for any outstanding rentals or damages to the properties which cost financially and leave the Company for litigations. I brought this matter to the attention of management but no response was made available at the time of this report.

Group Tax

As at 31 December 2011, the Company had an outstanding Group Tax liability of K4,961,797. The group tax that was deducted from the employees fortnight pay should have been remitted to Internal Revenue Commission (IRC) before seventh (7) day of the following month. Now IRC has penalized the Company with a 20% penalty for late payment and an additional 20% as interest on the outstanding amount until the tax has been remitted.

Operational Expense

During my review, I noted that three (3) payment vouchers valued K356,761 were not made available for my inspection. This implied that the Company did not follow proper filing system. I suggested to management to establish a proper filing procedure and ensure all supporting documents are kept properly for ease of reference in future.

67.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with inspection and audit of the accounts and records and examination of the financial statements of the Company for the years ended 31 December 2012, 2013, 2014 and 2015 were in progress.

The Company had not submitted the financial statements for the year ended 31 December 2016 for my inspection and audit.

67A. AIRPORT CITY DEVELOPMENT LIMITED (Subsidiary of National Airports Corporation Limited)

67A.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.

67A.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.

67A.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, 2014, 2015 and 2016 had not been submitted for my inspection and audit, despite reminders.

68. NCD WATER AND SEWERAGE LIMITED (Trading as Eda Ranu)

68.1 INTRODUCTION

68.1.1 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.

68.1.2 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.

68.2 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 2015 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

69. PAPUA NEW GUINEA 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 Papua New Guinea 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 AND RECOMMENDATIONS

69.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2015 was issued on 5 December 2016. The report did not contain any qualification.

69.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and the audit of the accounts and records of the Company for the year ended 31 December 2015 was issued on 9 March 2017. The report contained the following significant matters:

Compliance with the *Companies Act*

The financial statements for the year ended 31 December, 2015 had not been submitted to the Registrar within the required timeframe. This is in my opinion, a contravention to the *Companies Act*, 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.

Deficient Cargo Management Process

The internal audit department had noted that inefficiencies in the cargo management unit's processes for accounting for long stay cargo resulted in:

- 48 containers sitting in the wharf since 2010 with total accumulated inward storage charges of K33m; and
- 32 containers being unaccounted for.

The inefficiencies in the cargo management unit will result in the accumulation of storage charges for long stay cargo, which may not be recognized over time. This may result in overstatement of the revenue and receivables account balance.

I recommended that management take steps to improve the efficiency of its cargo management unit to prevent further accumulation of storage revenue that may not be recognized. I also recommended that management take steps to recover long stay cargo revenue, for cargo currently held in the port area. Legal notice should be given to the owners of the containers to claim them, if all other measures have failed.

The management responded as follows:

"The system is capable of accounting for long stay cargo.

The system is not able to use more than one rate concurrently, e.g. the rate for 2015 and the rate for 2016. The cargo revenue for 2016 is now calculated using 2016 rate in the system. For cargo for 2015 and prior years, calculation of revenue is done outside the system using the respective years' rates (i.e. 2015, 2014 and 2013).

System was designed in the operational requirements that every year rates were to change and that cargo are not supposed to be in port for more than 1 year."

Accrued Storage Revenue

While performing recalculations of three (3) selected samples for accrued storage fee, I noted an error amounted to K6,297. Upon reviewing the relevant supporting documents, I further noted that the cause of the error was due to the Klein System not capturing the charges based on the correct day range which attracted penalty fees (Tariff rate) in the course when containers were held in PNGPCL storage yard.

Additionally, I noted issues with Klein System when having discussions with the ICT Division in understanding the entity's IT environment:

1. *No link between cargo and container tracking;*
2. *System does not capture the transshipment storages of cargoes;*
3. *Not flagging duplicates;*
4. *Not printing IDD;*
5. *Not generating pro-forma invoice for storage; and*
6. *Not capturing additional charges.*

The implication is that the financial statement could be misstated as at year end as a result of stating an erroneous amount for accrued storage fees.

I recommended that management advises Klein to address these issues and implement controls within the system during the next routine maintenance and review of the system.

Management responded as follows:

"System is configured to calculate storage according to the business operation and commercial requirements of the Non-Regulated Tariffs schedule where storage is to commence 24 hours after last line, five (5) days free, Storage 1 (day 5 & 6), Storage 2 (day 7 – 14) and Storage 3 (day 15++).

There is now a link between Cargo and Container Tracking after system upgrade. System is not picking up transshipment because most of the cargo stays within the free storage days.

No duplicates accepted but same container can be re-entered on different voyage. Gate pass is the IDD, IDD is Gate Pass which is system generated. It is the same thing.

System is not generating proforma because it is already done by the carbon copy of IDD document."

Idle Property, Plant and Equipment and lack of supporting ownership to Land

During my inspection and inquiry of property, plant and equipment, I noted some items that were idle and no use in the Company. As per my discussion with the management, the cost of running these assets were higher than the revenue they would receive if they used the assets. I also noted that the Company's fixed assets register contained land without certificate of land titles.

The property, plant and equipment recorded in the books maybe impaired or overstated due to the recoverable amount of some items included in property, plant and equipment was lower than the carrying value of the assets.

I recommended management that at each reporting date, management assesses whether impairment indicators exists for long lived assets. Some indicators of impairment of property, plant and equipment:

a) Internal indicators

1. *Obsolescence or physical damage.*
2. *Significant changes with adverse effect on the Company (e.g. idle assets; plan to dispose).*
3. *Internal reporting that indicates that the economics performance of the assets is unsatisfactory.*

b) External indicators

1. *Assets market value has declined.*
2. *Significant changes (e.g. technological changes, market or legal).*
3. *Carrying amount of assets of the Company is more than its market capitalization.*

Management should work out to determine and acquire the necessary documentation to show ownership to these lands.

The management responded as follows:

"Management is aware of this matter which was raised by previous auditors and accepted qualification in 2011 and 2012 which was subsequently addressed and taken up as management letter point in 2013. Management is working on acquiring titles for the land. Management considers this a management letter point as the total value of all missing titles is approximately K2 million which can be considered not material compared to the total asset value.

The RTG (Lae Rubber Tyred Gantry's Cranes) have not been used since end of 2013 due to high operating cost and not been able to charge fees due to regulatory restrictions. Management is working on strategies to ensure the machines are utilized in the future."

Capitalization Policy on Borrowing Costs

IAS 23 – Borrowing Costs applies to all borrowing costs incurred in relation to qualifying assets where construction of the asset starts on or after the beginning of the first accounting period that commences on or after 1 January 2009. No retrospective restatement is required.

As at 31 December 2015, the Company had loans amounting to K129,454,043 outstanding to Westpac and K3,803,293 due to ANZ. These loans had been taken out to fund both operations and capital assets or qualifying assets.

a) Loan (100 m) – used to refinance BSP loans.
b) Loan (50 m) – used to finance Kimbe; and operations.

The Company has no accounting policy manual on the application of *IAS 23*. But the financial statements stated that "Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of cost of the assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds."
In 2015, no borrowing cost was capitalized as part of asset cost.

IAS 23, Borrowing costs, addresses accounting for borrowing costs. It considers whether borrowing costs should be capitalized as part of cost of the assets or expensed in profit or loss.

Without written accounting policy, management might overlook this accounting standard.

Management should establish formal accounting and policy manual under property, plant and equipment specifically addressing the capitalization of borrowing costs. The objective of the policy is to prescribe the Company's accounting treatment for the capitalization of borrowing costs associated with qualifying assets of property, plant and equipment. Additionally, guidance is provided on how to determine what falls into the qualifying asset category.

Management responded as follows:

"In the absence of accounting manual, international accounting standards apply. This will be addressed in the Accounting manual that will be developed in 2017."

Lack of Supporting Documentation

On completion of the statutory and compliance testing, I was advised to send list of items to management that I required supporting the work I performed. The following documents were requested:

1) Share Register
2) Interest Register
3) Solvency Certificate

4) Application for extension of time and change of balance date – 2015 annual returns

Attempts in following up with management on many occasions to provide these documents were unsuccessful.

Lack of available information may create non-compliance with the relevant regulations or reporting requirements under *Companies Act*.

Management is encouraged to ensure that all relevant documentation and filing of documents under *Companies Act* be prioritized.

The management responded as follows:

"There is a share register, but not interest register. We manage the interests' aspect by documenting it in the Minutes. There is a specific column devoted to this part in the Minutes.

Solvency certificates are signed off when it becomes necessary. For instance, when we enter into a big commercial transaction involving a huge amount, or about to make a big payment like a dividend and kept with Board Paper documentation.

Application for extension of time will be done when we are ready to conduct an AGM and also to lodge the Annual Returns for 2015. Company Registrar's Office extend time for three months only after the conventional period expires (normally the period between Jan and June in each year) and when the extension expires, we will need to apply for another extension.

The 2015 accounts will go to Auditor General for review and after we get it back, we will apply for extension of time. So to save costs, we will seek the extension when we are ready to conduct the AGM and also to lodge the Annual Returns for 2015."

Absence of Accounting Manual

Similar to prior year audit issue, the Company still did not have proper accounting manual in place. In the absence of detailed accounting procedures manual, it would be difficult for the Company to monitor and implement the new and revised accounting standards. I suggested management consider the implications of the foregoing standards on the preparation of the Company's financial statements, both for internal and statutory reporting purposes. I further suggested that the Company personnel involved in accounting and preparation of financial statements attend training courses related to these new standards.

The management responded as follows:

"Management is in the process of preparing an accounting manual. However, in the absence of accounting manual international accounting standards apply (e.g. IFRS & IAS). Management is in the process of finalizing engagement of a service provider to develop an accounting manual."

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 2016 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*. 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 (as 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) 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 Independent 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 (as 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 report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2015 was issued on 8 August 2016. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Fixed Assets – K70,154,077

The financial statements and fixed assets register discloses assets that were acquired since 2008 totalled K70,154,077 (2014:K50,971,008). 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's books. These assets include the Control Tower Building, MES & HQ Building, HF Receiver Station, James Hill (CDVOR/DME) and Rader Hill. Furthermore, the measurement of these assets were uncertain at the time of my audit as neither costs nor valuation amounts had been made available for my review.

Though, a resolution had been made between the concerned parties in this regard, the cost or valuation amounts have yet to be included against these assets. Therefore, I was unable to ascertain the accuracy and completeness of the fixed assets taken up in the financial statements as K70,154,077 as at 31 December 2015.

Levy Payable to Civil Aviation Safety Authority (CASA)

Sub-section 3(b) of *Section 147E* of the *Civil Aviation Act (as amended)* provides for PNG Air Service Limited (PNGASL) to pay a levy of 10% to Civil Aviation Safety Authority (CASA) from the aeronautical charges of upper airspace.

In 2013, PNGASL and CASA entered into a Memorandum of Understanding that PNGASL would pay a fixed sum of K1.6 million in 2013 and subsequently K1.74 million to CASA towards the aeronautical charges on International en-route Service. However, this agreement was not in compliance with the requirement of the Civil Aviation Act (as amended). I was unable to determine exactly the actual total liability payable to CASA by PNGASL for want of relevant documentation as this liability to be ascertaining since the Act came into operation in 2010.

Therefore, I was unable to determine the accuracy and completeness of the levy shown as paid in the profit and loss account, the taxable profit derived for the respective years and the total outstanding liability payable as at 31 December 2015.

QUALIFIED OPINION

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

(a) the financial statements of PNG Air Services Limited for the year ended 31 December 2015:

(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 Papua New Guinea;

(b) proper accounting records have been kept by the Company; and

(c) I have obtained all the information and explanations required except for the matter referred to in the qualification paragraphs.

OTHER MATTER

Non-Compliance with Section 212 (1) (g) of the Companies Act 1997

Note 22 (c) to the financial statements disclosed the remuneration paid to employees of the Company. However, this information was not presented in the bands of K10,000 above K100,000 as required by *Sub-section 1(g)* of *Section 212* of the *Companies Act.* Management claims that compliance of this requirement is likely to result in significant disadvantage and risk to the Company's business therefore it did not make these disclosures."

70.3 STATUS OF FINANCIAL STATEMENTS

The Company has advised as per the letter dated 14 November 2016 that it will appoint its own auditor for the 2016 audit. However, I have advised that I am still the auditor for the Company.

At the time of preparing this Report, the Company had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

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* 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 Enterprise (SOE) to oversee and implement the National Transmission Network (NTN) Impact Project 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 in February 2014.

71.1.2 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 telecommunication 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 Functions 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 AUDIT OBSERVATIONS

71.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the years ended 31 December 2014 was issued on 29 July 2016. The report did not contain any qualification.

71.3 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 2015 had been 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 2016 was in progress.

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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

72.2.1 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 2015 was issued on 26 January 2017. The report contained a Disclaimer of Opinion.

"BASIS FOR DISCLAIMER OF OPINION

Opening Balances

My report for the year ended 31 December 2014 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of capital work in progress, property, plant and equipment, trade receivables, trade creditors, cash and cash equivalents and bank overdrafts, inventories, other payables, other receivables, employee entitlements and tax balances. Since these opening balances entered into the determination of the results of operations and cash flows of the Company in 2015, I was unable to determine whether adjustments to the financial position, results of operations, cash flows and changes in equity might have been necessary for the year ended 31 December 2015.

Revaluation of Land and Building

Included in the carrying value of property, plant and equipment reported as K1,815.73 million as at 31 December 2015 was land and building valued K532.11 million. The Company had elected to adopt revaluation model as its accounting policy and carried its *Property, Plant and Equipment* at fair value. In 2015, the Company had recorded a revaluation adjustment of K428.20 million. However, the Company was unable to confirm whether all of its properties have been revalued during 2015. As a result, I was unable to ascertain the completeness of assets revalued, the accuracy of the fair value adjustment and whether any impairment would have been necessary for certain assets should the recoverable amount be lower than its respective carrying amount.

Fair value of certain properties can be lower than the carrying value as at 31 December 2015. In the absence of information available in respect of the opening balance of revaluation reserve, I was unable to ascertain whether it was appropriate to offset the decrease in the fair value of the properties against the revaluation reserve as at 31 December 2015. Furthermore, I was unable to confirm whether the fair value adjustments have been accurately included in the carrying value of individual fixed assets.

Therefore, I was unable to satisfy myself as to the accuracy of the carrying value of the land and building and related asset revaluation reserve of the Company as at 31 December 2015.

Impairment of Property, Plant and Equipment

In accordance with *IAS-36 Impairment of Assets,* an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If such indication exists, the Company shall estimate the recoverable amount of the asset. I was not provided with the supporting information to consider the reasonableness of the assumptions used in the impairment assessment performed by the Company. As a result, I was unable to verify as to whether the carrying values of property, plant and equipment and related impairment loss, if any, were fairly stated in the financial statements as at 31 December 2015.

Accounting for Capital Work in Progress

Note 4 of the financial statements disclosed the carrying value of capital work in progress at K263.59 million as at 31 December 2015. During the year, the Company transferred capital work in progress valued K42.31 million to Fixed Asset Register and charged depreciations on them. I was unable to ascertain the date from which these assets should have been classified as property, plant and equipment and appropriately depreciated. Further, my review of the capital projects management identified a number of control weaknesses such as delay in finalization of Project Completion Forms, ineffective monitoring and approval of Project Variation Forms and a lack of physical inspection of projects. Also, I was not provided with the details for capital work in progress as at 31 December 2015 (project ledger). In addition, I was unable to reconcile the work in progress per the project ledger and general ledger.

Consequently, I was unable to obtain sufficient and appropriate audit evidence to confirm the accuracy and completeness of the property, plant and equipment including capital work in progress as at 31 December 2015, and the related depreciation expenses charged to the comprehensive income for the year ended.

Inventories

The inventories of the Company and provision for stock obsolescence were reported at K35.87 million and K2.29 million respectively as at 31 December 2015. I was unable to verify the adequacy and reasonableness of these amounts due to the following reasons:

- I was unable to confirm the cost of inventory due to discrepancies observed as part of our testing of cost computation performed by the Company's inventory system; and
- I noted certain items of inventory were valued using standard costing methodology, however, the standard cost assumptions have not been updated since 2008.

As a result of the above, I was unable to obtain reasonable assurance that inventories were appropriately valued at K35.87 million as reported in the financial statements as at 31 December 2015.

Trade and Other Receivables

I noted two manual journals valued K37.92 million and K33.43 million were recorded at 31 December 2015 to reduce the reported amount of advances to suppliers (including prepaid bank draft in other receivables) as at balance sheet date. These adjustments were recorded on the basis that the advances to suppliers were made in prior financial years and the Company could not substantiate that any further supplies or services were to be received from the suppliers. Corresponding adjustments were made to various General Ledger accounts relating to Goods Received Not Invoiced, various expense accounts and property, plant and equipment. I was unable to obtain sufficient and appropriate audit evidence to ascertain that the resulting adjustments were reasonable.

As a result, I was unable to satisfy myself as to the accuracy, existence and completeness of the trade receivables of K139.88 million as at 31 December 2015.

Trade and Other Payables and Related Operating Expenses

Note 9 of the financial statements disclosed trade and other payables totalled K234.22 million as at 31 December 2015. I was not able to obtain sufficient appropriate audit evidence including reconciliation of trade payable accounts between the General Ledger and subsidiary ledger. In addition, reconciliations between supplier statements and their respective payable balances in the subsidiary ledger were not made available for my review. Further, I was not provided with appropriate audit evidence to support accruals amounting to K29.96 million and net output GST payable of K16.06 million.

Accordingly, I was unable to confirm the accuracy and completeness of the carrying value of trade and other payables and related operating expenses as at 31 December 2015.

Accounting for Government Grants

I was provided by the Company with an adjustment which corrected the accounting for its Government Grant in accordance with *paragraph 12* of *IAS 20, Accounting for Government Grants and Disclosure of Government Assistance,* which required government grants be recognised in the profit or loss on a systematic basis over the periods in which the entity recognised as expenses the related costs for which the grants were intended to compensate.

However, I was unable to validate the reasonableness of the calculations provided due to the qualification on capital work in progress and unable to ascertain the completeness of the listing of projects funded through government grants.

Employee Benefits

Accuracy of calculation of employee benefits:

Note 10 of the financial statements disclosed the Company's obligation to its employees at K61.25 million. The provision for employee benefits included long service leave, annual leave, ex-gratia payments and other employee benefits. The Chris Payroll System calculated the provision for employee benefits based on data supplied by the employee master file. However, there were errors and inconsistencies between the employee master file and supporting documents. Also, I was unable to obtain sufficient information and documentation including commencement dates, basic pays, and the completeness of employees entitled to the benefits. Consequently, I was unable to quantify the potential impact on provisions for employee benefits and operating expenses in the comprehensive income for the year ended 31 December 2015.

Measurement of provision for other long term employee benefits:

Further, included in the provision for employee benefits were other long-term employee benefits such as ex-gratia payment and long service leave. The Company had measured these other long-term employee benefits at undiscounted value of the entitlements which was a departure from *IAS 19, Employee Benefits.* In accordance with the revised *IAS 19, Employee Benefits*, the amount recognised as liability for other long-term employee benefits should be the net present value of the benefit obligation.

However, the Company had not provided me with an actuarial valuation report or other supporting information for these long-term employee benefits.

Accordingly, I was unable to obtain sufficient appropriate audit evidence to confirm the accuracy, completeness and valuations of the carrying value of employee provisions reported at K61.25 million as at 31 December 2015, and quantify any potential impact on operating expenses in the comprehensive income for the year ended.

Electricity Revenue

The financial statement disclosed K843.73 million as electricity revenue for the year ended 31 December 2015. However, I was unable to obtain sufficient and appropriate audit evidence to attest the occurrence of revenue recorded.

I was unable to verify the completeness of the revenue as the Company was not able to provide evidence such as approved credit meter application forms, bill notes/ invoices and reconciliation of the amount recorded between the General Ledger and the Company's Supreme Billing System.

Adequacy of Allowance for Doubtful Debts

Note 7 of the financial statements disclosed that the Company has made a provision of K39.80 million doubtful debts in respect of its trade receivables as at 31 December 2015. However, I was not able to assess the completeness or calculation accuracy of the trade receivables ageing reports generated by the Company's Gentrack Billing System as at 31 December 2015.

Consequently, I was not able to attest the completeness or accuracy of the doubtful provision reported as at 31 December 2015.

Provision for Legal Claim

The Company recorded a provision of K3.49 million towards legal claim as at 31 December 2015. However, my review of this provision disclosed that it did not include allowances for all matters identified by the Company's Legal Division or the allowances for matters handled by the Company's external solicitors.

Accordingly, I was unable to ascertain the completeness of the provision for the legal claims as at 31 December 2015.

Income Taxes

I was provided with a tax calculation by the Company to support the income tax balances. However, I was not provided with the supporting information and reconciliations to consider the reasonableness of the inputs used in the calculation. Further, given the qualifications in the revenue and operating expenses, I was unable to quantify the impact of these on income tax balances. As a result, I was unable to satisfy myself whether the income tax balances were fairly stated as at 31 December 2015.

Presentation and Disclosure of Financial Statements

The 2015 financial statements as presented did not contain all the disclosures required by International Financial Reporting Standards (IFRS), including:

- Required disclosures on restatements of prior period adjustments, and consistency of presentation of comparative figures under *IAS 1, Presentation of Financial Statements* and *IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors;*
- *IAS 7, Statement of Cash Flows* – no disclosure of non-cash activities;

- *IAS 12, Income Taxes* – no disclosure of income tax effect of revaluation reserve;
- *IAS 16, Property, Plant and Equipment* – no disclosure for each revalued class of property, plant and equipment of the carrying amount that would have been recognised had the assets been carried under the cost model;
- *IAS 20, Accounting for Government Grants and Disclosure of Government Assistance* – no disclosure of the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised;
- *IAS 1, Presentation of Financial Statements* – disclosure of significant accounting policies and key estimation assumptions were not complete;
- *IAS 24, Related Party Disclosures* – disclosures of related party transactions were not complete;
- *IAS 19, Employee Benefits (Revised)* – disclosure of actuarial assumptions were not complete; and
- *IAS 10, Events after the Reporting Period* – no disclosure of non-adjusting events after the reporting period.

Accordingly, I was unable to attest to the statement of compliance with International Financial Reporting Standards as set out in *Note 1* of 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 and accordingly, I am unable to express an opinion on the financial statements of PNG Power Limited for the year ended 31 December 2015."

72.2.2 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 2015 was issued on 26 January 2017. The report contained the following significant matters:

Minutes of the Board Meetings

I was not provided with all minutes of the board meetings for my review. There could be significant matters discussed in these meetings, which may have impacts on the financial statements of the Company for the year ended.

Purchase and Payable Processes and Systems

a) I noted control deficiencies in the design and implementation of the purchase orders and invoices having approved subsequent to the delivery of goods and services;

b) I noted that PPL operated a General Ledger account named *"goods received not invoiced"*. As at 31 December 2015, this account had a balance of K10.93 million. Goods received not invoiced, indicated that the three-way matching process was not operating effectively. That is, goods have not been matched at receipt to clear the goods received not invoiced account and created a creditor against which the account can be paid;

c) Evidence in respect of review of creditors' reconciliation by a senior officer was not sighted. I also noted that documentation supporting the reconciliation of the creditors was insufficient to allow the preparer to perform the reconciliation effectively and the reviewer of the reconciliation to effectively identify items that required attention; and

d) Sufficient audit evidence was not available to support the incurrence and recording of the expense transactions selected for testing during the audit.

Revenue Process and Systems

I was unable to validate the control environment surrounding revenue recognition due to an incomplete 'audit trail'. The following control deficiencies were noted:

a) ***Monthly reconciliation of electricity sales per Suprima, Gentrack and Oracle***
I noted that the reconciliation of electricity sales between the three systems (Suprima, Gentrack and Oracle) was not performed during the year. In addition, a net reconciling amount of K1.94 million was identified which PPL had not provided me with the supporting documentation.

b) ***Monthly reconciliation of electricity debtors***
Monthly reconciliation of the electricity debtors were not performed on a regular basis.

I noted that the General Ledger account of electricity debtors had a balance of K130.3 million which was less than the balance of K113.7 million per the Gentrack system. Reconciliation was provided but an unidentified variance of K4.12 million was written off during the year.

c) Review of validation report for read meters

Due to lack of sufficient documentation, I was unable to ascertain whether review was performed to ensure that manual meter readings were input correctly into Gentrack system and that sales recorded were accurate. The validation report, which was utilized by the data input clerks to check whether the sales per bill-book were within accepted parameters was not reviewed by the Centre Supervisors.

d) Review of exception reports on unread meters

Due to lack of sufficient documentation, I was unable to ascertain whether a review was performed on a monthly basis to ensure the sales were complete and accurate.

e) Accuracy of aging report

From the sample of the aging reports of the electricity debtors tested, I noted variances which were not reconciled. I was unable to ascertain the accuracy of the aging report generated from the Gentrack system.

Information Technology control Environment

I noted significant weaknesses in the IT control environment. Specifically, I noted weaknesses with respect to system access, system change management, reporting capability to support account reconciliations and the broader control environment and ongoing system monitoring. These are detailed below:

a) Follow up of prior year findings

Significant control weaknesses identified and reported in my prior years reports remained unresolved. I understood from IT management that remediation plans to address the issues were in progress.

b) Testing over Information Technology

(i) The Company did not have procedures in place to formalize the documentation and approval of the request for change in the system. Unauthorised or inappropriate program changes were made and as a result, the integrity of financial data may be compromised;

(ii) I noted that documentation in respect of testing by the Company personnel for changes to the Oracle, Chris21, Gentrack and Suprima applications was lacking. The Company was not able to provide the test plans, test cases and test results. Lack of adequate user acceptance testing and approval may also resulted in application systems that did not meet user functionality or internal control requirements been placed into the production environment.

This increases the risk of accidental or deliberate programming errors adversely affecting processing at PNG Power. Consequently, the Company may suffer loss of business and revenue due to incorrect data processing or system failure;

(iii) The Company did not maintain evidence to support the approval obtained for program changes prior to implementation. Unauthorised or inappropriate program changes can be made and as a result the integrity of financial data may be compromised;

(iv) At the time of my review, there was no formal process for reviewing changes post-implementation and the procedures currently being developed will satisfy the control objective in the future. Failure to adequately review or monitor change activities in a timely manner increases the risk of unauthorised access to production environment being undetected for an extended period of time, resulting in unauthorised and erroneous changes being developed and implemented within the application;

(v) The responsibility to develop and move changes was performed by the same person. Where adequate segregation of duties was not enforced, it was possible that the integrity of programs being moved into the live systems can be compromised, either accidentally due to oversight or deliberately due to manipulative processing;

(vi) The password settings for the Oracle, Chris21, Gentrack and Suprima applications were set to minimum and below the recommended settings. Unauthorised access to accounts was made more possible where password settings were not activated;

(vii) Formal periodic reviews of user access privileges have not been performed for the Oracle, Chris21, Gentrack and Suprima applications to confirm that users with active accounts are valid employees and the access privileges granted is consistent with their roles and responsibilities. Excessive or inappropriate access granted to users increases the risk of unauthorised access to financial applications and may result to deliberate or accidental manipulation of financial data;

(viii) At the time of my review, there was no formal process in place for the removal of terminated user access. As a result, access of terminated employee was not removed in a timely manner (i.e. a day after his/her termination). Furthermore, there was no process for Human Resources (HR) to communicate the need for access removal to IT.

Where user accounts belonging to terminated employees were not removed or disabled in a timely manner, the risk of unauthorised use of these accounts may increase;

(ix) I noted that no periodic review was performed of user access to the key financial systems to determine that their access rights were appropriately authorised and established. Unauthorised or inappropriate access may be granted to a user which increases the risk that key financial data/programs were intentionally or unintentionally modified; and

(x) There were no backup processes in place for the Chris21, Suprima or Gentrack applications. I understand that there was a backup process for Oracle where the data was backed up to tapes daily, but these tapes are stored onsite. There was no policy and procedure in place to support the process. There was also no formal process in place to test that backups can be successfully restored if needed. Without a formalised backup policies and procedures on servers and supporting infrastructure, there is an increased risk of a prolonged outage should the power, or restore procedures fail. In addition, a lack of formal backup and recovery policies and procedures increases the risk that day-to-day backup administration activities were difficult to monitor and enforce.

I brought the above deficiencies to the attention of the management and recommended for improvements on these weaknesses.

Quality of General Ledger Reconciliations

The reconciliations were prepared on a regular basis and that there was an overriding framework to manage the reconciliation process.

However, I identified a number of weaknesses which included the level of skepticism applied for account reconciliations (preparer and reviewer), limited knowledge and understanding of operational processes by reconciliation preparers/reviewers, limited support provided for reconciling items and aging of reconciling items.

I also identified a number of reconciliations and schedules which were signed off by the preparer and reviewer but contained errors, which were not detected during the review process.
These findings indicated that the review process was not effective and increases the risk of errors and irregularities not been detected and resolved. This could increase risks of material misstatement.

The impacts of the above issues include:

- *Reconciliations containing material errors could not be detected;*
- *Increased use of 'general provisions' by management to counter the risk of potential reconciliation errors;*
- *Reconciliations were not supported by adequate documentation / calculations; and*
- *Build-up of long outstanding reconciling items that had not been actioned.*

Asset and Project Management Process

The management of PPL commenced implementing improvements in this area. However, there remains significant opportunity to improve processes associated with asset impairment monitoring, fair value assessments, useful life assessments and capital WIP management.

The significant matters that were highlighted include:

a) Capital Project Management

Capital project management was a critical process for PNG Power. I noted a number of deficiencies as summarised below:

(i) Delay in finalisation of project completion forms

PPL was currently behind in their submission of completion notice forms for completed projects. This increases the risk that projects were not closed out and subsequently capitalized and depreciated from the date the assets were held ready for use.

(ii) Lack of physical inspection of projects

The Company performed physical inspection of significant project assets. However, I suggest that a full count be performed to account for the recorded assets in the books. This created risks of misuse of project related assets and the completion status of projects may not be physically verified by PPL staff independent of the project team.

b) Review of Assets' Useful Lives

I noted inconsistencies in the useful lives disclosed in the financial statements and those used in the Fixed Asset Register. Management should review the useful lives of its assets and appropriately reflect this in its financial statements.

c) Accuracy of Property, Plant & Equipment (PPE) as at 31 December 2014

In 2014 and in prior years' audit reports, I qualified in respect of capitalized Project Work-In-Progress (WIP). To this extent I was unable to confirm the accuracy of the cost of property, plant & equipment (PPE) as at 31 December 2015.

This consequentially impacted the accuracy of depreciation charge for the year, which further impacted the accuracy of results for the year and carrying value of the PPE at the year end.

I recommended that a review should be performed on all Projects in progress from the date each project commenced so as to identify when each asset is available for use. Once this review was completed, assets should be transferred from Project WIP to PPE from the date they become available for use.

Reconciliation and Cash and Bank Balance

I noted the following matters over the bank reconciliation process:

a) Bank reconciliations were prepared manually. Oracle had a built in function where bank reconciliations were automatically prepared if the accounting system was linked to online banking.

b) Bank reconciliation items were not addressed on a timely basis.

Receivables

I noted the following matters over the receivable balances:

a) Variance between subsidiary and General Ledger Balances for which the General Ledger was overstated by K4.12 million;

b) Advance collected from customers valued K5.84 million was deducted from the total receivable balance thereby understating the receivable balance;

c) A full allowance for receivable which were past due for more than 180 days and for those balances which were determined to be uncollectible was provided by the Company. I was unable to obtain sufficient appropriate evidence to evaluate the reasonableness of the policy due to issues noted in the aging of receivables and the Company could not generate report to show the collection status subsequent to year end for receivables outstanding as at 31 December 2015;

d) Errors were noted in the assumptions used in the computation of the accrual for unread meters thereby overstating the revenue accrual during the year; and

e) The propriety of the adjustment in the prepayment account totalled K37.93 million could not be ascertained due to lack of supporting documents.

Inventory

I noted the following key matters with respect to inventories:

a) I noted variances between the inventory listing report and General Ledger. Also, there were negative quantities in the inventory listing provided as at 31 December 2015;

b) I observed that costs directly attributable to bring inventories to their present location and condition (which includes freight, insurance, handling charges) were not included as part of inventory cost, instead incorrectly charged directly to the income statement. Inventory and cost of sale may be understated;

c) No appropriate supporting calculation was made available for the provision for stock obsolescence valued K2.29 million as at 31 December 2015; and

d) The weighted average cost as per my recalculation and the amount as shown in the system had variances which were not reconciled.

Tax workings could not be substantiated

In 2014 and prior years audit reports, I disclaimed my opinion on tax balances for lack of supporting documentation to ensure completeness and accuracy. To the extent that these balances were brought forward and included in the 2015 financial statements had also impacted the accuracy and completeness of the tax balances as at 31 December 2015 and tax expense charged for the year. Due to information not provided in respect of PPE, Projects WIP, revenue, inventory and accounts payable, I was unable to substantiate the tax workings provided. The following specific matters were noted:

a) ***Income Tax Refundable***

The Company's Statement of Account showed refundable amount of K4.68 million while the financial statements reflected K4.03 million as refundable amount. I was unable to obtain a reconciliation of the difference.

b) Deferred Tax Liabilities

I was unable to confirm the accuracy and completeness of deferred tax liabilities amounted to K133.91 million. This significant amount of deferred tax liability arose from depreciation. I was unable to obtain reasonable assurance on the balance of depreciation expenses recognized for tax purpose since Fixed Assets Register was not made available to verify this claim.

Skills, Culture and Work Ethic

The current accounting processes and outcomes were significantly impacted by level of skills, culture and work ethic of staff. The Company needs to improve on quality and productivity of accounting and other key business processes. These areas include:

Inadequately skilled and motivated staff to:

- *perform business as usual functions;*
- *Implement the changes required to improve the operational efficiency and control environment; and*
- *Maintain operations once necessary changes have been made.*

Payroll and Employee-related Provisions

I noted the following key matters with respect to payroll and employee-related provisions:

a) Validity of Data used in calculating employee provisions

As at 31 December 2015, the Company had a provision for employee benefits amounted to K61.25 million for long service leave, annual leave, ex-gratia payments and other employee benefits. The provision amount was automatically calculated by the Chris21 Payroll System which is highly dependent of the employee master file. Based on my audit procedures, there were errors and inconsistencies between the employee master file and supporting documents.

b) Measurement and accuracy of provision for other long term employee benefits

As at 31 December 2015, the Company provided for other long-term employee benefits such as ex-gratia payments and long service leave. These other long-term employee benefits were measured currently at the undiscounted value of the entitlements. In accordance with Revised *IAS 19, Employee Benefits*, the amount recognised as liability for other long-term employee benefits must be the net total at the end of the reporting period of the present value of the defined benefit obligation.

c) Presentation of employee related provisions in the financial statements

During the year, the Company had presented all its employee-related provisions as current with the concept that these were vested already. However, the year end balances were not reclassified to maintain comparative presentation of the balances.

Other Provisions

I noted that management had ongoing cases as at 31 December 2015. Management had not assessed the probability of potential outflow for probable claims and the impact of these ongoing cases in the financial statements considering the requirements of *IAS 37, Provisions, Contingent Liabilities and Contingent Assets.*

72.3 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 examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

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 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and the audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was completed and results were being evaluated.

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 National Information and Communication Technology Authority (NICTA) formerly known as (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 of 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 *DATEC (PNG) Limited, Kalang Advertising Limited, Media Niugini Limited (EMTV)* and *PNG Directories Limited*. Comments in relation to these subsidiaries are contained in paragraphs 74A, 74B, 74C and 74D of this Report respectively.

74.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

74.2.1 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 29 July 2016. The report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

Impairment of Property, Plant and Equipment

Property, plant and equipment were carried at a value of K736 million as at 31 December 2014. The network assets, equipments and vehicles included in this balance amounted to K508.5 million. Despite the presence of impairment indicators, the Company had not prepared an impairment test to determine the recoverable value of these assets as required by IAS 36 *Impairment of Assets*. As such, I was unable to determine if any impairment had arisen in relation to these assets and whether their carrying value was appropriate.

Land Titles

Documentary evidences in relation to the state leases were not provided to me for properties with a carrying value of K38.8 million to confirm the existence and ownership of these assets. These properties were recognised as part of the land and buildings in the statement of financial position. I was unable to determine whether the recognition of these assets were appropriate.

Impairment of Goodwill

The Company made an acquisition of a subsidiary effective 1 August 2014 and this transaction resulted in a goodwill of K18 million. The Company had not performed an impairment test of the goodwill on the basis that there were no impairment indicators as the acquisition was only completed five months prior to the financial year end and the subsidiary remained profitable and its net assets improved since acquisition. However, the accounting standard *IAS 36 "Impairment of Assets"* requires that an annual impairment test must be performed in relation to the goodwill. As an impairment test had not been performed, I was unable to confirm whether the carrying value of the good will was appropriate.

Trade Receivables

Trade receivables as at 31 December 2014 include a net amount of K7.1 million from a local telecommunication company. Sufficient and appropriate audit evidence was not provided to substantiate the recoverability and accuracy of this account balance. As such, I was unable to determine whether any adjustment were required in relation to this balance.

Investment Property

Certain properties of the company were held for the purpose to earn rental income by leasing to third parties and employees of the company. The carrying value of such properties was K40.5 million as at 31 December 2014 and classified as part of property, plant and equipment in the statement of financial position. This presentation was not in accordance with the requirements of *International Accounting Standard 1 "Presentation of Financial Statements"* which requires investment properties to be classified as a separate line in the Statement of financial position. Consequently, the financial statements also did not include all the disclosures in relation to investment properties as required by *International Accounting Standard 40 "Investment Properties".*

QUALIFIED OPINION

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

a) the consolidated financial statements of Telikom (PNG) Limited have been properly drawn up in accordance with the provisions of the *Companies Act, 1997* and comply with generally accepted accounting practice and give a true and fair view of the financial position of the Consolidated Entity as at 31 December, 2014, and of its financial performance and its cash flows for the year then ended.

b) proper accounting records have been kept by the Group as far as it appears from my examination of those records; and

c) I have obtained all the information and explanations I required for the purposes of my audit.

EMPHASIS OF MATER

I draw attention to Note 1 to these financial statements, which stated that the Company and the Group reported a loss of K15.8 million and K13.0 million respectively for the year. As at the balance date the Company's and the Group's current liabilities exceeded the current assets by K69.5 million and K59.6 million respectively. This, along with other matters described in *Note 1*, indicated the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amount stated in the financial statements. My opinion is not qualified in respect of this matter."

74.2.2 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 2014 was issued on 29 July 2016. The report contained the following significant matters:

Inventory GL Reconciliation

The results of the annual stock counts performed by the Company were not completely recorded in the general ledger as at 31 December 2014. This resulted in a difference of K2 million. This was appropriately adjusted in the financial statements. I recommended management to ensure that the inventory GL balance be updated timely by the results of physical stock counts. The management responded as follows:

"Internal system capability was limited. All inventories has since been migrated and managed in the new Microsoft AX ERP system. This has now made it possible for a three way reconciliation of physical stock, sub-ledger and general ledger.

Such full reconciliations has been done before the audit of 2015 accounts and will be a quarterly activity going forward."

Periodic physical count of inventory

Periodic physical counts of inventory were not currently performed. In addition, the technical personnel did not attend the stock takes. I recommended management to ensure that technical stocks were counted on a regular basis. Moreover, attendance of technical personnel during stock counts of technical stocks was also recommended.

Reconciliation of GL revenue accounts with Avabill

Bulk of the revenue recorded in the accounting system was generated from Avabill. While there was a monthly fluctuation review of the general ledger (GL) balances, this however did not help ascertain the completeness of the batches of revenue generated from Avabill that were fed to the accounting system. I recommended to management to establish a reconciliation procedure on revenue between Avabill and GL system to ensure that complete revenue was recorded in the accounting system. The management responded as follows:

"There is a critical monthly review process during and after Avabill data loaded into GL. We have started reconciling the Avabill GL Text Files vs AX Uploaded Files since January 2015."

Area of Other Control Weakness

- Improvement on General Ledger reconciliations
- Monitoring of Telephone bond fees
- Timeliness of completed projects to Fixed Asset Register (FAR)
- Completeness of accrual at year end
- Filing of payroll evidences
- Effective filing of customer application forms

IT Policies and Procedures

During the review, it was identified that although there were policies and procedures in place at Telikom, these were five years old and needed update to reflect the current practices. In addition, there was an opportunity to strengthen the current password and change management sections.

Change Management

Generally, applications operate systematically; so, an application that initially processes data accurately would continue to do so. A robust change management process ensures that changes follow a controlled and approved set of procedures. I noted that there were a number of changes made during 2014. However, I noticed the following issues in relation to changed management:

- Avabill – I did not obtain sufficient supporting documentation (evidence) for the change ref: 014-20140807-TPNG-CR-MOD-006-v1 to confirm that the changes was authorized, prioritized, tested, and implemented in accordance with Telikom's change management policy.

- SAP – Telikom uses the internal SAP tool to manage changes. I was unable to obtain sufficient evidence to verify that these changes were managed in line with the requirements of the company's change management policy.

Other control issues noted during the review:

- Inappropriate administrator access rights
- Weakness in the user management processes and procedures
- Opportunity to improve password controls
- Lack of evidence when performing backup recoverability testing

74.3 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 2015 and 2016 were in progress.

74A. DATEC (PNG) LIMITED (Subsidiary of Telikom (PNG) Limited)

74A.1 INTRODUCTION

74A.1.1 Legislation

Datec (PNG) Limited was incorporated under the *Companies Act*. The Company was fully acquired by Telikom (PNG) Limited from Steamships Trading Company Limited on 1 August 2014. The Company is a wholly owned subsidiary of Telikom (PNG) Limited.

74A.1.2 Functions of the Company

Datec (PNG) Limited's principal activity is in the provision and support of technology applied solutions including business critical ICT consulting, solutions and services, IT outsourcing, business process outsourcing, internet services, electronics and computer retail, training and wide-ranging technical support.

74A.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 2015 had been completed and the results were being evaluated.

The Company had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

74B. KALANG ADVERTISING LIMITED (Subsidiary of Telikom (PNG) Limited)

74B.1 INTRODUCTION

74B.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.

74B.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.

74B.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 2014 was completed and results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and examination of the Company's financial statements for the year ended 31 December 2015 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

74C. MEDIA NIUGINI LIMITED (EMTV) (Subsidiary of Telikom (PNG) Limited)

74C. INTRODUCTION

74C.1.1 Legislation

Media Niugini Limited (EMTV) was incorporated under the *Companies Act*. The Company was acquired by Telikom (PNG) Limited from Fiji Television Limited (FijiTV) on 4 February 2016.

The Company was founded in 1985 by two local businessmen in a joint venture with the Nine Network of Australia. In July 1987 the Company commenced broadcasting through its national television service. In 1990 Nine Network acquired 100% ownership of Media Niugini Limited and later sold its interest in the Company to Fiji Television Limited (FijiTV) in December 2004. The Company then operated as a subsidiary of FijiTV.

The Company is now a wholly owned subsidiary of Telikom (PNG) Limited.

74C.1.2 Functions of the Company

Media Niugini Limited, trading as EMTV, provides television broadcasting services in Papua New Guinea.

The Company offers:

- current affairs, national news, weather reports, and special documentaries; and
- shows in the areas of sports, lifestyle, entertainment, drama, children, religion, music and others.

74C.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 2016 was in progress.

74D. PNG DIRECTORIES LIMITED (Formerly E. H. O'Brien Limited) (Subsidiary of Telikom (PNG) Limited)

74D.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.

74D.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 2015 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

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. Details of these companies are contained in paragraphs 76 to 79.

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 2016 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 2016 and the audit report was issued on 28 February 2017. This report contained a Qualified Opinion.

"BASIS FOR QUALIFIED OPINION

On 24 November 2016, the Company acquired a subsidiary which holds an investment in an unlisted investment fund. The investment is classified as an available for sale asset at a fair value of K1.1 million.

A K1.4 million discount on acquisition was recognised in the Statement of Comprehensive Income of the Group on the date of acquisition. The fair value of the available-for-sale asset forms part of the calculation of the discount on acquisition.

Management has not been provided with the 2016 audited financial statements of the investee and the investee is unable to confirm the number and value of units held by the various investors.

Accordingly, we have been unable to determine whether the fair value of the investment of K1.1 million is fairly stated.

As a result, we have been unable to satisfy ourselves as to the accuracy of the K1.4 million discount on acquisition and the valuation of the available-for-sale asset recognised by the Group at 31 December 2016.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion section of our report, the accompanying financial statements:

1. comply with International Financial Reporting Standards and other generally accepted accounting practice in Paua New Guinea; and

2. give a true and fair view of the financial position of the Company and the Group as at 31 December 2016, and their financial performance and cash flows for the year then ended."

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.

As 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 reports of the Company for the years ended 31 December 2010, 2011, 2012, 2013, 2014, 2015 and 2016 had not been submitted for my 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 the Investment Promotion Authority (IPA) in June 2017 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.

As 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 conducted the audit of Company's financial statements for the years ended 31 December 2015 and 2016 and the audit reports were issued on 12 July 2016 and 7 March 2017 respectively. The reports 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, 2014, 2015 and 2016 for my verification.

SECTION D

PROBLEM AUDITS
(AUDITS IN ARREARS)

80. FOREWORD

This Section of my Report deals with problem audits, especially audits in arrears. 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.

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 (2016) 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 relieve 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 **31 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 (2016 AUDITS)

Entities totalling **104** subject to audit by the Auditor-General comprise **78** Public Bodies and their subsidiaries, **26** National Government owned companies and **4** companies in which the National Government has share holdings (referred to as Section 'C' Companies).

TYPES OF ENTITIES SUBJECT TO AUDIT

Table 1

Section	Types of Audit	Number of Entities	
		2016/2017	2015/2016
(A)	Public Bodies and their Subsidiaries	78	77
(B)	National Government Owned Companies	26	22
(C)	National Government Shareholdings in other Companies	4	4
		108	**103**

Table 1. *Shows the total of Types of Entities subject to Audit.*

Chart 1

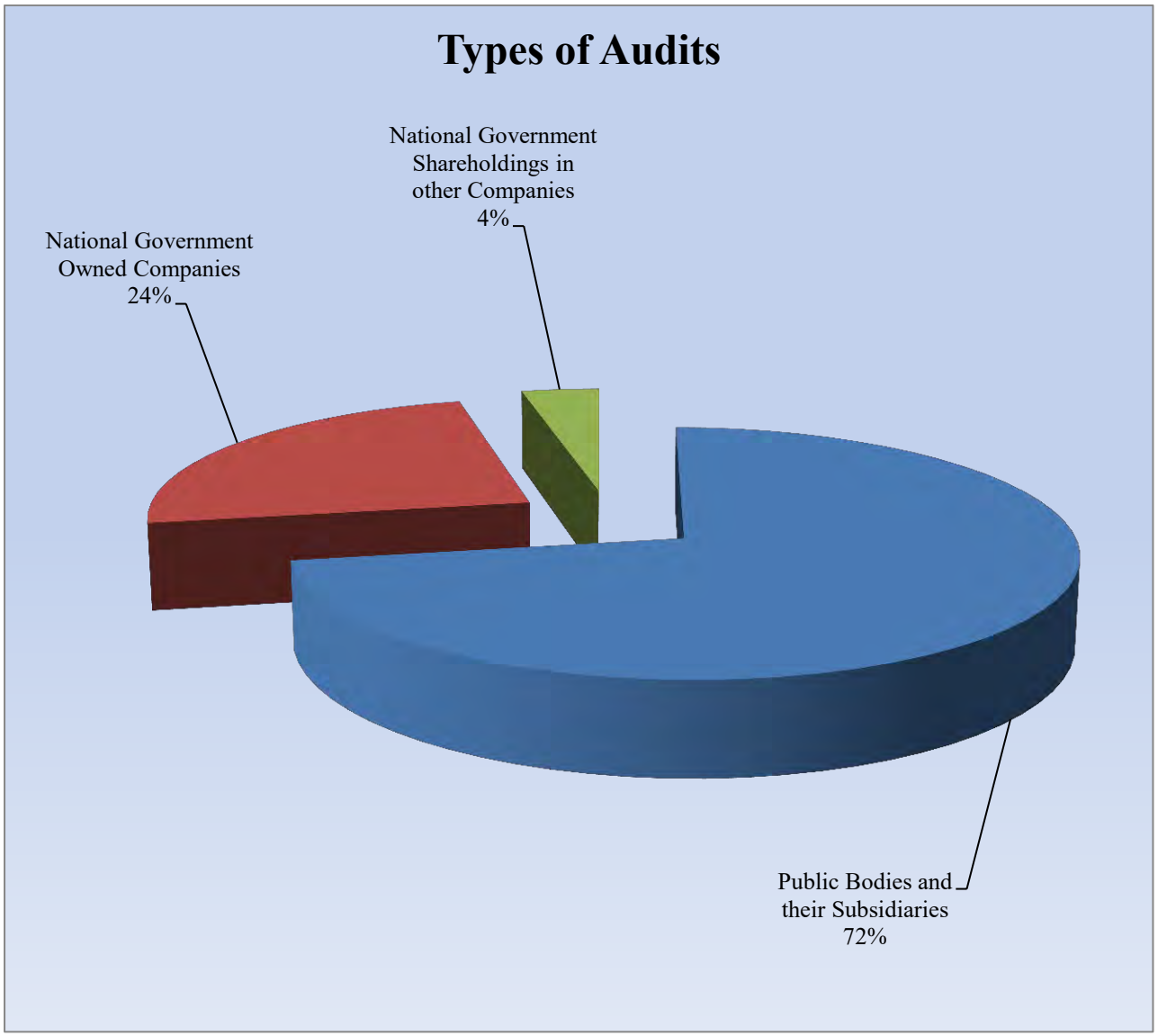


Chart 1. *Shows the percentages of Types of Entities subject to Audit during 2016/2017 Audit Cycle.*

81.5 STATUS OF CURRENT YEAR AUDITS

Each of the **104** entities, 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 **44** entities have submitted their financial statements for 2016 (**Schedule A**) for audit up to the time of preparing this Report. A total of **60** entities have not submitted their 2016 financial statements (**Schedule A**) for audit in 2016. It could therefore be logically concluded that, about 58% of the public bodies might not have submitted their annual reports and financial statements for 2016 together with my reports on them, to the respective Ministers for tabling in the National Parliament on or before June 2017.

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 2016.

STATUS OF CURRENT YEAR AUDITS 2016

Table 2

No.	Status of Current Year Audits	Number of Entities	
		2016/2017	2015/2016
1	Audits completed and reports issued thereon (Schedule A)	20	16
2	Audits substantially completed (Schedule A)	4	5
3	Audits in progress (Schedule A)	15	18
4	Audits to commence shortly (Schedule A)	5	2
5	Financial Statements not submitted (Schedule A)	60	58
6	Ceased Entities (Schedule D)	1	0
		105	**99**

Table 2. *Shows the total of Status of Current Year (2016) Audits (Schedule A).*

Chart 2

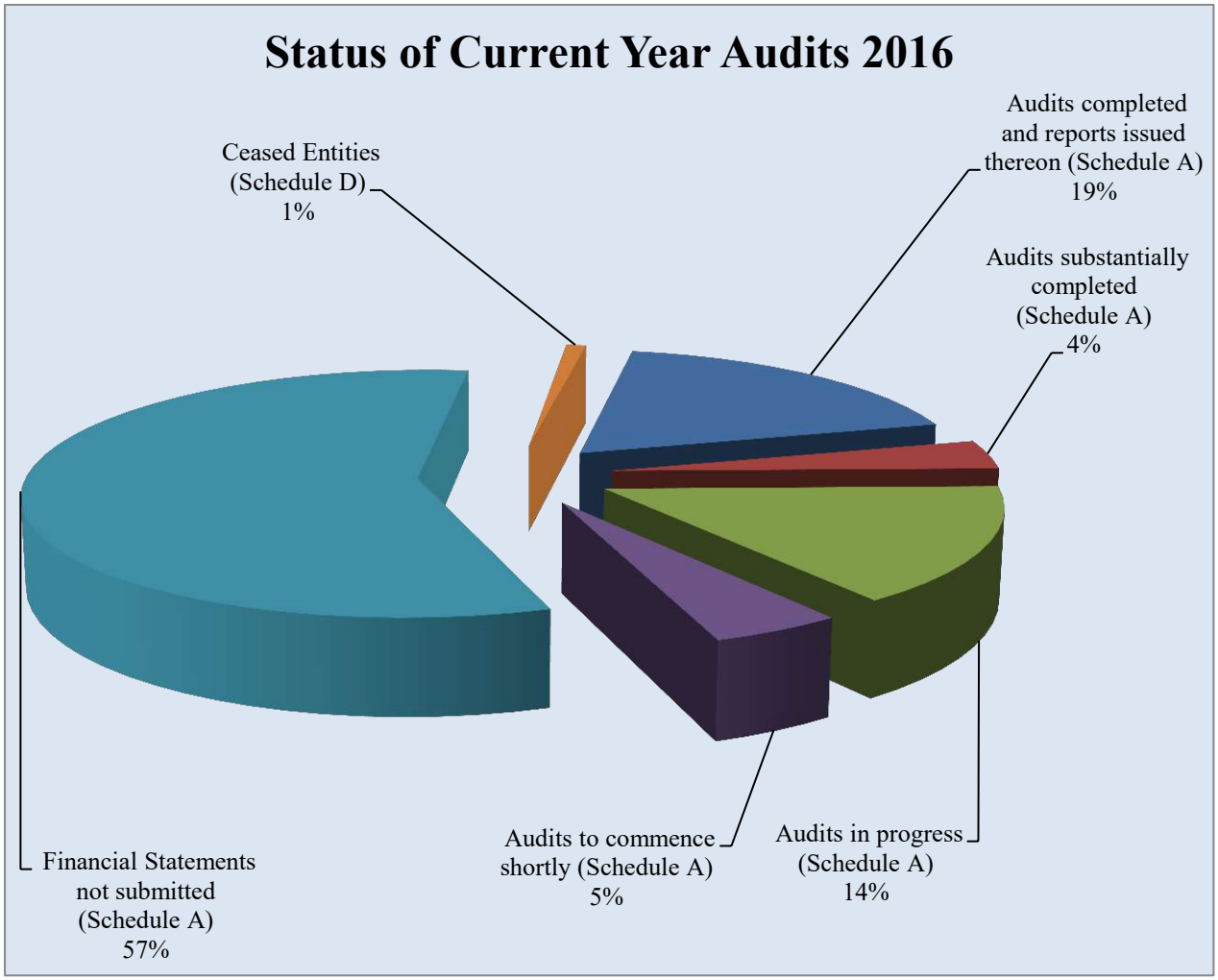


Chart 2. *Shows the percentages of Audit Status for the Current Year (2016) during 2016/2017 Audit Cycle. (Schedule A)*

81.6 AUDITS IN ARREARS (2015 AND PRIOR YEARS)

Records available in my Office show that a total of **72** entities (125 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 (2015 AND PRIOR YEARS)

Table 3A

No.	Status of Audits in Arrears by No. of Entities (2015 and Prior Years)	Number of Entities	
		2016/2017	2015/2016
1	Audits substantially completed (Schedule B)	17	25
2	Audits in progress (Schedule B)	18	17
3	Audits to commence shortly (Schedule B)	6	4
4	Financial Statements not submitted (Schedule B)	31	37
		72	**83**

Table 3A. *Shows the Status of Audits in Arrears by number of Entities for 2015 and Prior Years during 2016/2017 Audit Cycle. (Schedule B)*

Chart 3A

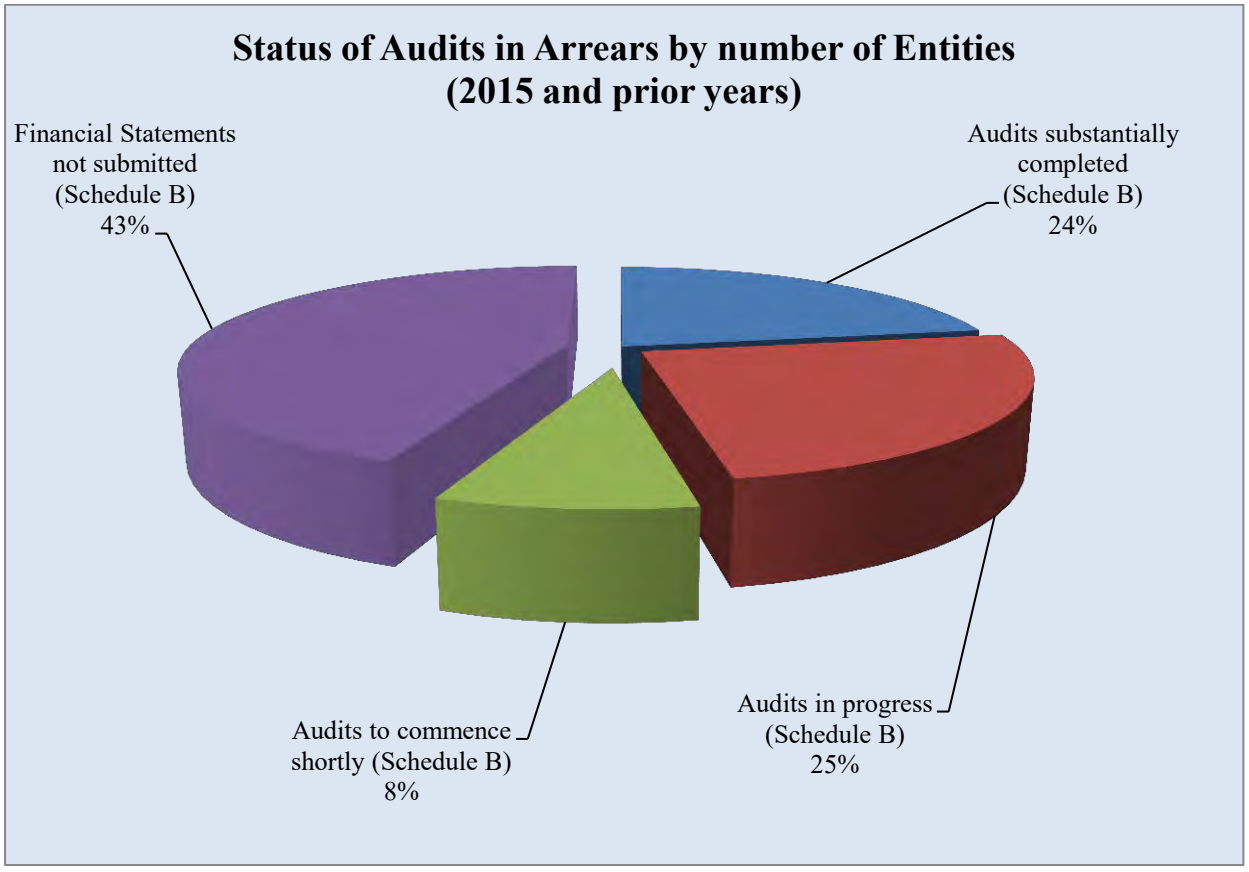


Chart 3A. *Shows the percentages of Audit Status for Audits in Arrears by number of Entities for 2015 and Prior Years during 2016/2017 Audit Cycle. (Schedule B).*

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2015 AND PRIOR YEARS)

Table 3B

No.	Status of Audits in Arrears by No. Of Audits (2015 & prior years)	Number of Audits	
		2016/2017	2015/2016
1	Audits substantially completed (Schedule B)	21	32
2	Audits in progress (Schedule B)	24	31
3	Audits to commence shortly (Schedule B)	10	5
4	Financial Statements not submitted (Schedule B)	70	58
		125	**126**

Table 3B. *Shows the Status of Audits in Arrears by number of Audits for 2015 and Prior Years during 2016/2017 Audit Cycle. (Schedule B).*

Chart 3B

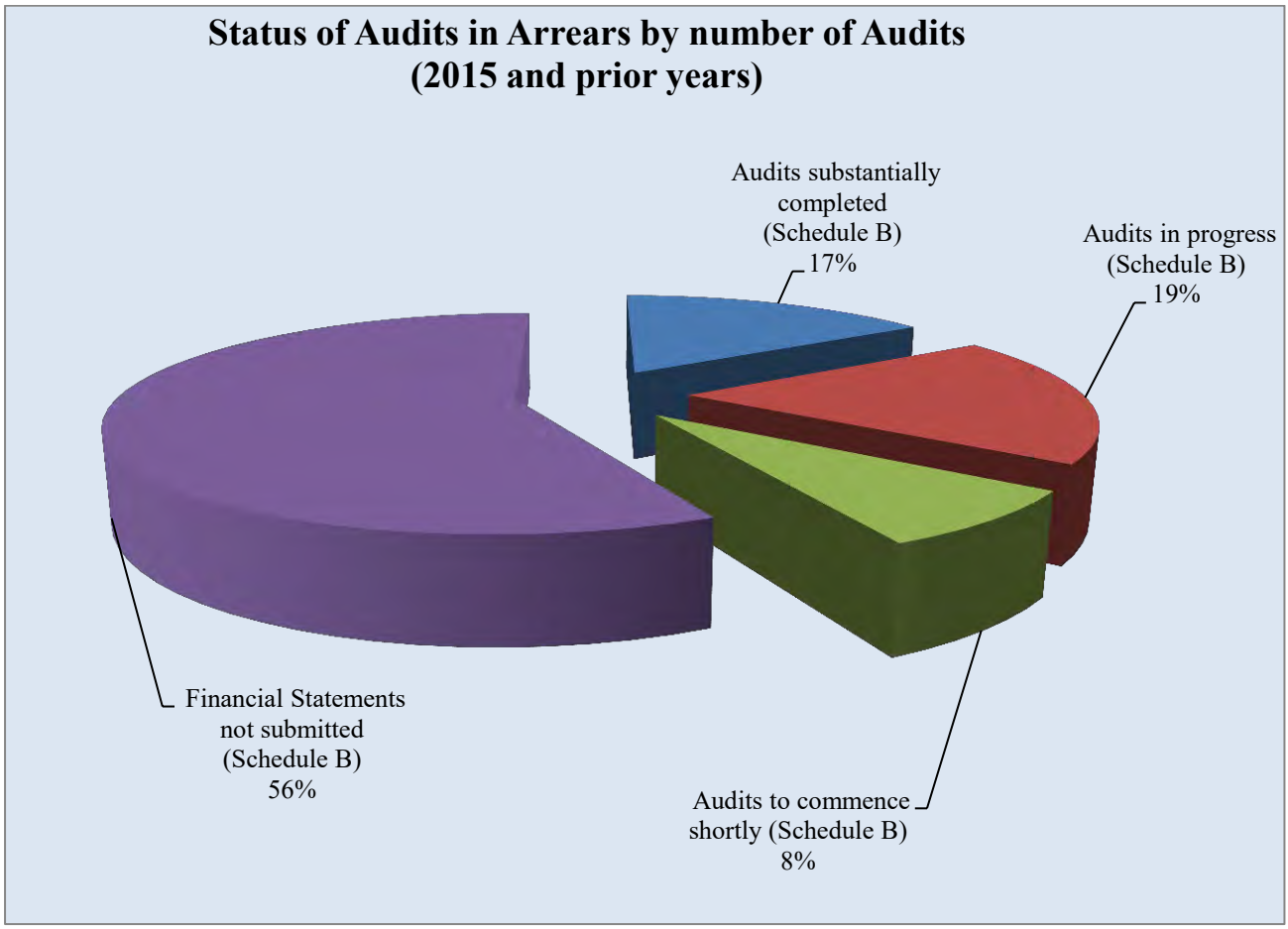


Chart 3B. *Shows the percentages of Audit Status for Audits in Arrears by number of Audits for 2015 and Prior Years during 2016/2017 Audit Cycle. (Schedule B).*

81.7 LONG OUTSTANDING FINANCIAL STATEMENTS

During this Audit Cycle (2016/2017), **31** audit entities were in the arrears category, decrease of six compared to prior year (2015). Of these **31** entities, **70** financial statements for periods ranging from one year to six years have still not been submitted. In other words, they still have financial statements outstanding for the years from 2010 to 2015. 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 (2015 AND PRIOR YEARS)

Table 4A

No.	Years Outstanding by Entities	Number of Entities	
		2016 Report	2015 Report
1	One Year (Schedule C)	9	24
2	Two Years (Schedule C)	12	7
3	Three Years (Schedule C)	5	5
4	Four Years (Schedule C)	4	0
5	Five Years (Schedule C)	0	1
6	Six Years (Schedule C)	1	0
		31	**37**

Table 4A. *Shows the total of Long Outstanding Financial Statements by number of Entities during 2016/2017 Audit Cycle. (Schedule C).*

Chart 4A

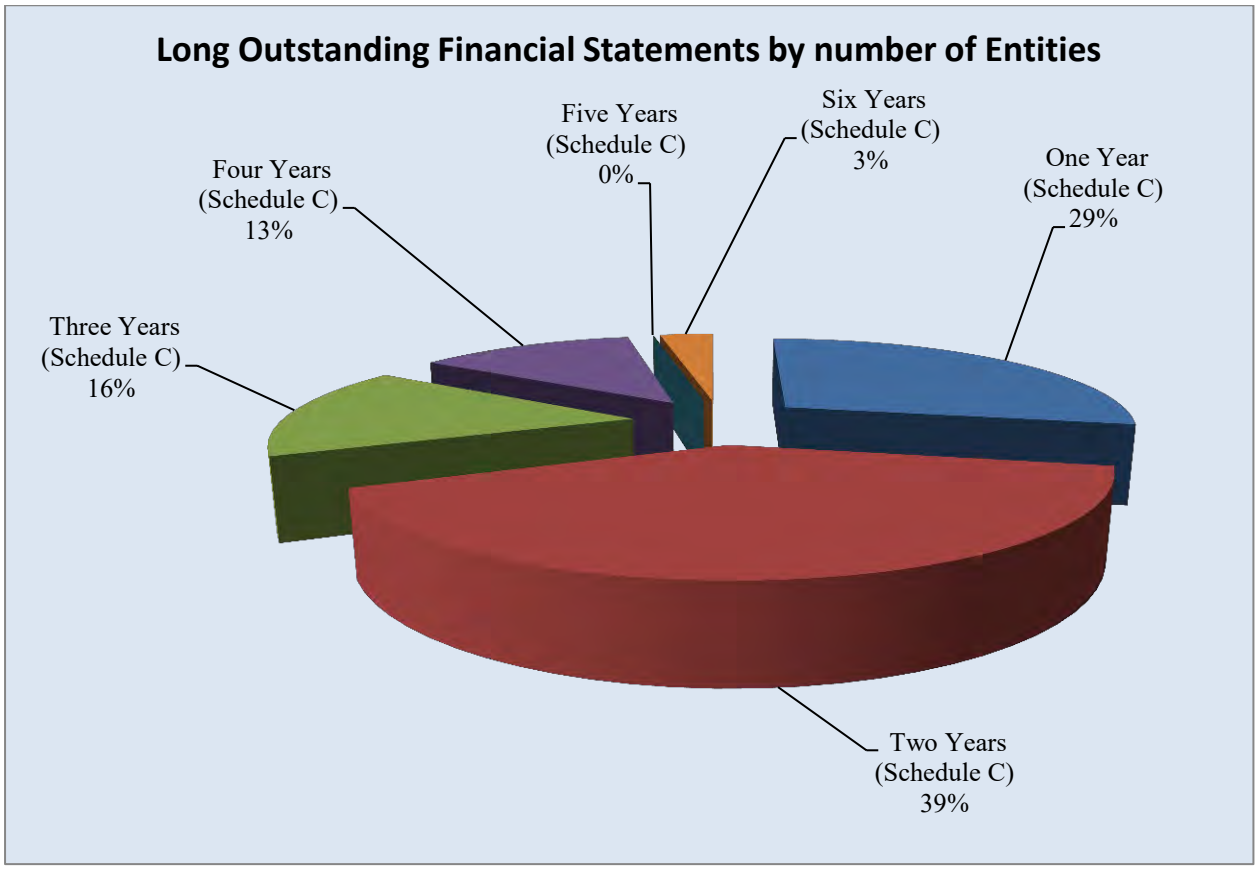


Chart 4A. *Shows the percentages of Long Outstanding Financial Statements by number of Entities during 2016/2017 Audit Cycle (Schedule C).*

LONG OUTSTANDING FINANCIAL STATEMENTS BY NUMBER OF AUDITS (2015 AND PRIOR YEARS)

Table 4B

No.	Years Outstanding by Audits	Number of Audits	
		2016 Report	2015 Report
1	One Year (Schedule C)	9	24
2	Two Years (Schedule C)	24	14
3	Three Years (Schedule C)	15	15
4	Four Years (Schedule C)	16	0
5	Five Years (Schedule C)	0	5
6	Six Years (Schedule C)	6	0
		70	**58**

Table 4B. *Shows the total of Long Outstanding Financial Statements by number of Audits during 2016/2017 Audit Cycle. (Schedule C).*

Chart 4B

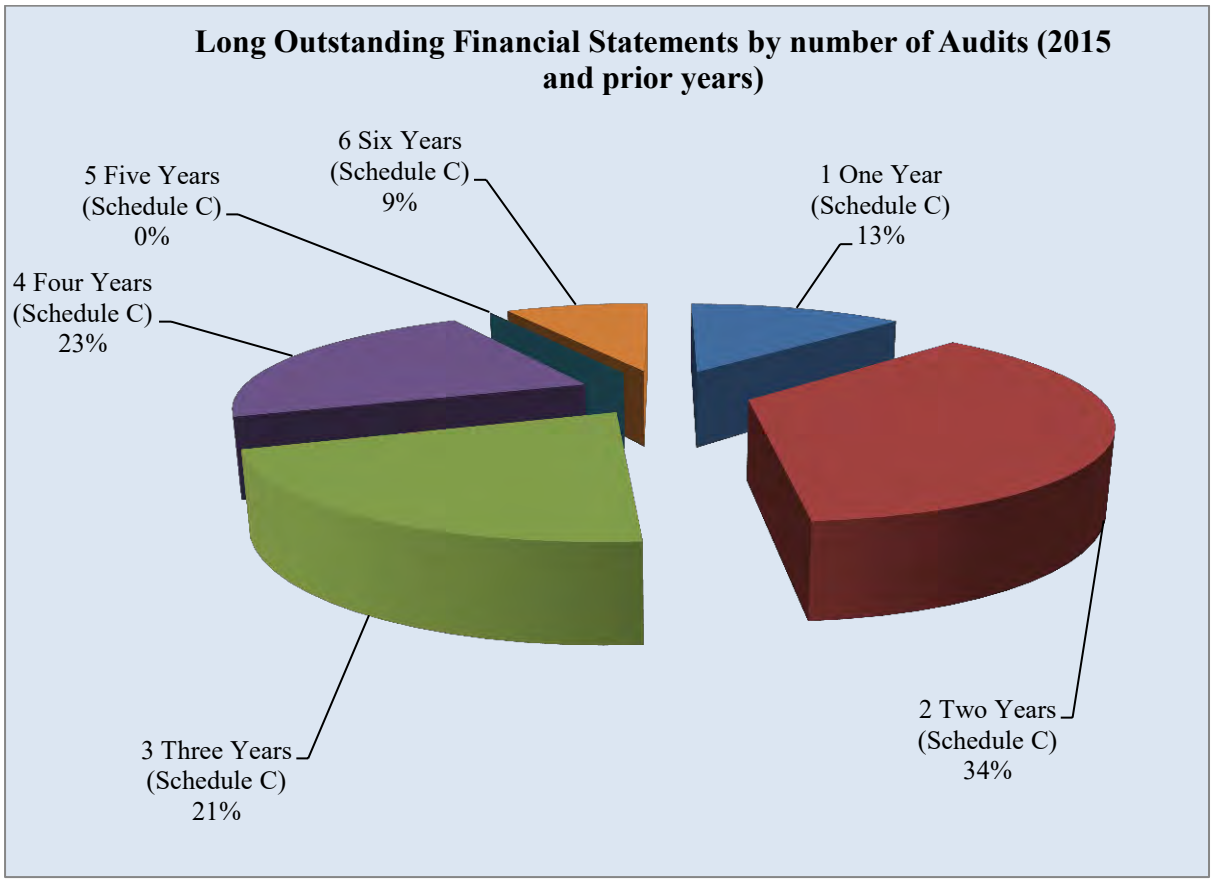


Chart 4B. *Shows the percentages of Long Outstanding Financial Statements by number of Audits during 2016/2017 Audit Cycle. (Schedule C).*

81.8 STATUS OF AUDITS AS AT 30 JUNE 2017

As illustrated in **Executive Summary Table 1**, during July 2016 and June 2017 Audit Cycle, a **total of 169 audits** were undertaken by the Audit Office. Out of **169 audits** carried out, **105 audit** reports were issued. **Table 5 and Chart 5** shown below provide the details of the Status of Audits during the period July 2016 to June 2017.

STATUS OF AUDITS AS AT 30 JUNE 2017

Table 5

No.	Status of Audits	Number of Audits	
		2016/2017	2015/2016
1	Audits completed and reports issued thereon (Schedules A & E)	105	88
2	Audits substantially completed (Schedules A & B)	25	37
3	Audits in progress (Schedules A & B)	39	49
4	Audits to commence shortly (Schedules A & B)	15	7
5	Financial Statements not submitted (Schedules A & B)	130	116
		314	**297**

Table 5. *Shows the Status of Audits as at 30 June 2017 for the 2016/2017 Audit Cycle. (Schedules A&E and A&B).*

Chart 5

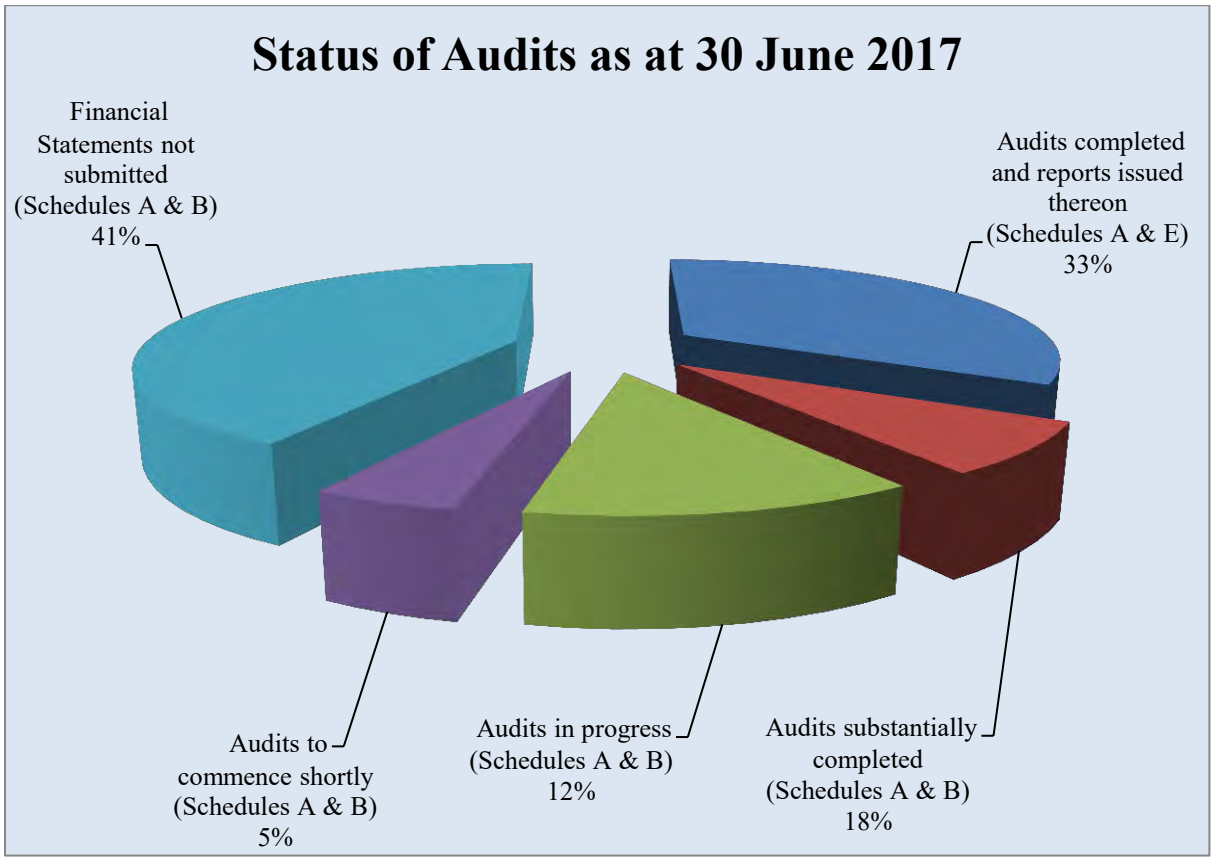


Chart 5. *Shows the percentages of Audit Status as at 30 June 2017 for the 2016/2017 Audit Cycle (Schedules A&E and A&B).*

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 11TH AUGUST
TWO THOUSAND AND SEVENTEEN

PHILIP NAUGA
Auditor-General of Papua New Guinea

SCHEDULES

Schedule 'A'

STATUS OF CURRENT YEAR (2016) AUDIT

(i) AUDITS COMPLETED AND REPORTS ISSUED THEREON

No.	Section	Para. No.	Entity	No. of Audits
1	A	2	Bank of Papua New Guinea	1
2	A	10	Independence Fellowship Trust	1
3	A	11	Independent Consumer and Competition Commission	1
4	A	14	Investment Promotion Authority	1
5	A	15	Kokonas Indastri Koporesen	1
6	A	15A	Papua New Guinea Coconut Extension Fund	1
7	A	15B	Papua New Guinea Coconut Research Fund	1
8	A	20	National Agricultural Research Institute	1
9	A	25	National Economic and Fiscal Commission	1
10	A	30	National Maritime Safety Authority	1
11	A	33	National Research Institute	1
12	A	37	National Volunteer Service	1
13	A	41	Pacific Games (2015) Authority	1
14	B	63	Kumul Petroleum Holdings Limited	1
15	B	63A	Eda Oil Limited	1
16	B	63B	Kumul LNG Limited	1
17	B	63C	Kumul Petroleum (Development) Limited	1
18	B	63D	Kumul Petroleum (Investments) Limited	1
19	B	63E	Kumul Petroleum (Kroton) Limited	1
20	B	63F	Kumul Petroleum (Pipeline) Limited	1
				20

(ii) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	No. of Audits
1	A	17	Legal Training Institute	1
2	A	56	Tourism Promotion Authority	1
3	B	63G	Kumul Petroleum (Tech and Advisory) Limited	1
4	B	73	Post (PNG) Limited	1
				4

(iii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	No. of Audits
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	1
2	A	16	Kumul Consolidated Holdings	1
3	A	16A	General Business Trust	1
4	A	16B	PNG Dams Limited	1
5	A	16C	Port Moresby Private Hospital Limited	1
6	A	35	National Roads Authority	1
7	B	62	Air Niugini Limited	1
8	B	62A	Link-PNG Limited	1
9	B	65	Mineral Resources Development Company Limited	1
10	B	66	Motor Vehicles Insurance Limited	1
11	B	69	Papua New Guinea Ports Corporation Limited	1
12	B	71	PNG DataCo Limited	1

No.	Section	Para. No.	Entity	No. of Audits
13	B	72	PNG Power Limited	1
14	B	74	Telikom (PNG) Limited	1
15	B	74C	Media Niugini Limited (EMTV)	1
				15

(iv) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity	No. of Audits
1	A	29	National Information and Communication Technology Authority (NICTA)	1
2	A	38	National Youth Commission	1
3	A	40	Ombudsman Commission of Papua New Guinea	1
4	A	42	Papua New Guinea Accident Investigation Commission	1
5	A	57	University of Goroka	1
				5

(v) FINANCIAL STATEMENTS NOT SUBMITTED

No.	Section	Para. No.	Entity	No. of Audits	Last Report Issued	Date of Report
1	A	3	Border Development Authority	1	2013	11/23/2016
2	A	3A	Papua New Guinea Maritime Transport Limited	1	2012	10/29/2015
3	A	5	Climate Change and Development Authority	1	2012	7/25/2016
4	A	6	Cocoa Board of Papua New Guinea	1	2015	6/15/2017
5	A	6A	Cocoa Pod Borer Project Fund	1	2015	6/15/2017
6	A	6B	Cocoa Stabilisation Fund	1	2015	6/15/2017
7	A	7	Cocoa Coconut Institute Limited of Papua New Guinea	1	2013	8/9/2016
8	A	8	Coffee Industry Corporation Limited	1	2013	10/26/2016
9	A	8A	Coffee Industry Fund	1	2013	11/29/2016
10	A	8B	Patana No.61 Limited	1	2013	12/5/2016
11	A	9	Government Printing Office	1	2014	6/5/2017
12	A	12	Industrial Centres Development Corporation	1	2015	2/28/2017
13	A	13	Internal Revenue Commission	1	New Inclusion	
14	A	18	Mineral Resources Authority	1	2013	3/7/2017
15	A	19	National Agriculture Quarantine and Inspection Authority	1	2015	4/14/2017
16	A	21	National AIDS Council Secretariat	1	2014	10/14/2016
17	A	22	National Broadcasting Corporation	1	2014	4/11/2017
18	A	23	National Capital District Commission	1	2013	3/14/2017
19	A	23A	National Capital District Botanical Enterprises Limited	1	2012	5/4/2015
20	A	23B	Port Moresby City Development Enterprises Limited	1	2012	5/4/2015
21	A	23C	Port Moresby Nature Park Limited	1	2013	5/4/2016
22	A	24	National Cultural Commission	1	2013	8/8/2016
23	A	26	National Fisheries Authority	1	2014	11/25/2016
24	A	27	National Gaming Control Board	1	2014	5/16/2016
25	A	27A	National Gaming Control Board Community Benefit Fund Trust	1	2014	5/16/2016
26	A	28	National Housing Corporation	1	2013	4/24/2017
27	A	31	National Museum and Art Gallery	1	2014	3/27/2017
28	A	32	National Nacotics Bureau	1	2012	9/22/2014
29	A	34	National Road Safety Council	1	2015	5/12/2017
30	A	36	National Training Council	1	2015	1/30/2017

No.	Section	Para. No.	Entity	No. of Audits	Last Report Issued	Date of Report
31	A	39	Oil Palm Industry Corporation	1	2011	9/30/2016
32	A	43	Papua New Guinea Customs Service	1	2013	11/19/2015
33	A	44	Papua New Guinea Forest Authority	1	2012	2/19/2016
34	A	45	Papua New Guinea Immigration and Citizenship Service Authority	1	2015	6/13/2017
35	A	46	Papua New Guinea Institute of Medical Research	1	2014	9/30/2016
36	A	47	Papua New Guinea Institute of Public Administration	1	2013	5/8/2017
37	A	48	Papua New Guinea Maritime College	1	2014	3/29/2017
38	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	1	2015	6/7/2017
39	A	50	Papua New Guinea Sports Foundation	1	2013	3/9/2017
40	A	51	Papua New Guinea University of Technology	1	2014	4/10/2017
41	A	51A	National Analytical and Testing Services Limited	1	2011	4/4/2016
42	A	51B	Unitech Development and Consultancy Company Limited	1	2013	10/22/2015
43	A	52	Parliamentary Members' Retirement Benefits Fund	1	2015	2/27/2017
44	A	53	Public Curator of Papua New Guinea	1	2012	11/30/2015
45	A	54	Security Industries Authority	1	2014	10/7/2016
46	A	55	Small Business Development Corporation	1	2012	11/2/2015
47	A	57A	Unigor Consultancy Limited	1	2013	11/30/2015
48	A	58	University of Natural Resources and Environment (Vudal)	1	2014	10/29/2016
49	A	59	University of Papua New Guinea	1	2013	12/8/2016
50	A	59A	Unisave Limited	1	2011	8/25/2014
51	A	59B	Univentures Limited	1	2011	6/24/2014
52	A	60	Water PNG	1	2014	4/24/2017
53	B	64	Livestock Development Corporation Limited	1	2009	10/31/2012
54	B	67	National Airports Corporation Limited	1	2011	9/27/2016
55	B	67A	Airport City Development Limited	1	New Inclusion	
56	B	68	NCD Water and Sewerage Limited (Eda Ranu)	1	2014	1/19/2016
57	B	70	PNG Air Services Limited	1	2015	8/8/2016
58	B	74A	DATEC (PNG) Limited	1	2014	6/10/2016
59	B	74B	Kalang Advertising Limited	1	2013	12/7/2015
60	B	74D	PNG Directories Limited	1	2014	6/10/2016
				60		

Schedule 'B'

STATUS OF AUDITS IN ARREARS (2015 AND PRIOR YEARS)

(i) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2014	1
2	A	13	Internal Revenue Commission	2015	1
3	A	16	Kumul Consolidated Holdings	2015	1
4	A	16B	PNG Dams Limited	2015	1
5	A	16C	Port Moresby Private Hospital Limited	2015	1
6	A	17	Legal Training Institute	2014 & 2015	2
7	A	18	Mineral Resources Authority	2014	1
8	A	23	National Capital District Commission	2014	1
9	A	27	National Gaming Control Board	2015	1
10	A	27A	National Gaming Control Board Community Benefit Fund Trust	2015	1
11	A	38	National Youth Commission	2012 & 2013	2
12	A	53	Public Curator of Papua New Guinea	2013	1
13	A	55	Small Business Development Corporation	2013 - 2015	3
14	A	57	University of Goroka	2015	1
15	B	71	PNG DataCo Limited	2015	1
16	B	74A	DATEC (PNG) Limited	2015	1
17	B	74B	Kalang Advertising Limited	2014	1
					21

(ii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	16A	General Business Trust	2015	1
2	A	18	Mineral Resources Authority	2015	1
3	A	23	National Capital District Commission	2015	1
4	A	23C	Port Moresby Nature Park Limited	2014 & 2015	2
5	A	26	National Fisheries Authority	2015	1
6	A	29	National Information and Communication Technology Authority (NICTA)	2015	1
7	A	44	Papua New Guinea Forest Authority	2013 & 2014	2
8	A	51A	National Analytical and Testing Services Limited	2012 & 2013	2
9	A	59	University of Papua New Guinea	2014	1
10	A	60	Water PNG	2015	1
11	B	62	Air Niugini Limited	2015	1
12	B	62A	Link-PNG Limited	2015	1
13	B	65	Mineral Resources Development Company Limited	2015	1
14	B	67	National Airports Corporation Limited	2012 - 2015	4
15	B	68	NCD Water and Sewerage Limited (Eda Ranu)	2015	1
16	B	74	Telikom (PNG) Limited	2015	1
17	B	74B	Kalang Advertising Limited	2015	1
18	B	74D	PNG Directories Limited	2015	1
					24

(iii) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	7	Cocoa Coconut Institute Limited of Papua New Guinea	2014 & 2015	2
2	A	9	Government Printing Office	2015	1
3	A	38	National Youth Commission	2014 & 2015	2
4	A	42	Papua New Guinea Accident Investigation Commission	2013 - 2015	3
5	A	46	Papua New Guinea Institute of Medical Research	2015	1
6	A	51	Papua New Guinea University of Technology	2015	1
					10

(iv) FINANCIAL STATEMENTS NOT SUBMITTED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Border Development Authority	2015	1
2	A	3A	Papua New Guinea Maritime Transport Limited	2013 - 2015	3
3	A	5	Climate Change and Development Authority	2013 - 2015	3
4	A	8	Coffee Industry Corporation Limited	2014 & 2015	2
5	A	8A	Coffee Industry Fund	2014 & 2015	2
6	A	8B	Patana No.61 Limited	2014 & 2015	2
7	A	21	National AIDS Council Secretariat	2015	1
8	A	22	National Broadcasting Corporation	2015	1
9	A	23A	National Capital District Botanical Enterprises Limited	2013 - 2015	3
10	A	23B	Port Moresby City Development Enterprises Limited	2013 - 2015	3
11	A	24	National Cultural Commission	2014 & 2015	2
12	A	28	National Housing Corporation	2014 & 2015	2
13	A	31	National Museum and Art Gallery	2015	1
14	A	32	National Narcotics Bureau	2013 - 2015	3
15	A	39	Oil Palm Industry Corporation	2012 - 2015	4
16	A	43	Papua New Guinea Customs Service	2014 & 2015	2
17	A	44	Papua New Guinea Forest Authority	2015	1
18	A	47	Papua New Guinea Institute of Public Administration	2014 & 2015	2
19	A	48	Papua New Guinea Maritime College	2015	1
20	A	50	Papua New Guinea Sports Foundation	2014 & 2015	2
21	A	51A	National Analytical and Testing Services Limited	2014 & 2015	2
22	A	51B	Unitech Development and Consultancy Company Limited	2014 & 2015	2
23	A	53	Public Curator of Papua New Guinea	2014 & 2015	2
24	A	54	Security Industries Authority	2015	1
25	A	57A	Unigor Consultancy Limited	2014 & 2015	2
26	A	58	University of Natural Resources and Environment (Vudal)	2015	1
27	A	59	University of Papua New Guinea	2015	1
28	A	59A	Unisave Limited	2012 - 2015	4
29	A	59B	Univentures Limited	2012 - 2015	4
30	B	64	Livestock Development Corporation Limited	2010 - 2015	6
31	B	67A	Airport City Development Limited	2012 - 2015	4
					70

Schedule 'C'

LONG OUTSTANDING FINANCIAL STATEMENTS (2015 & PRIOR YEARS)

(i) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN ONE YEAR

No.	Section	Para. No.	Entity	No. of Audits
1	A	3	Border Development Authority	1
2	A	21	National AIDS Council Secretariat	1
3	A	22	National Broadcasting Corporation	1
4	A	31	National Museum and Art Gallery	1
5	A	44	Papua New Guinea Forest Authority	1
6	A	48	Papua New Guinea Maritime College	1
7	A	54	Security Industries Authority	1
8	A	58	University of Natural Resources and Environment (Vudal)	1
9	A	59	University of Papua New Guinea	1
				9

(ii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN TWO (2) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	8	Coffee Industry Corporation Limited	2
2	A	8A	Coffee Industry Fund	2
3	A	8B	Patana No.61 Limited	2
4	A	24	National Cultural Commission	2
5	A	28	National Housing Corporation	2
6	A	43	Papua New Guinea Customs Service	2
7	A	47	Papua New Guinea Institute of Public Administration	2
8	A	50	Papua New Guinea Sports Foundation	2
9	A	51A	National Analytical and Testing Services Limited	2
10	A	51B	Unitech Development and Consultancy Company Limited	2
11	A	53	Public Curator of Papua New Guinea	2
12	A	57A	Unigor Consultancy Limited	2
				24

(iii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN THREE (3) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	3A	Papua New Guinea Maritime Transport Limited	3
2	A	5	Climate Change and Development Authority	3
3	A	23A	National Capital District Botanical Enterprises Limited	3
4	A	23B	Port Moresby City Development Enterprises Limited	3
5	A	32	National Narcotics Bureau	3
				15

(iv) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FOUR (4) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	39	Oil Palm Industry Corporation	4
2	A	59A	Unisave Limited	4
3	A	59B	Univentures Limited	4
4	B	67A	Airport City Development Limited	4
				16

(v) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN SIX (6) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	B	64	Livestock Development Corporation Limited	6
				6

Schedule 'D'

NON OPERATIONAL ENTITIES AND OTHERS

(i) AUDIT PORTFOLIOS CEASED IN THE 2016/2017 AUDIT CYCLE

No.	Section	Para. No.	Entity	Year of Audit
1	A	41	Pacific Games (2015) Authority	2016

(ii) NATONAL GOVERNMENT MINORITY SHAREHOLDINGS IN OTHER COMPANIES

No.	Section	Para. No.	Entity	Remarks
1	C	76	Bougainville Copper Limited	2016 Audit Report Completed.
2	C	77	Gogol Reforestation Company Limited	Audited Financial Statement for 2010 - 2016 not Submitted
3	C	79	PNG Sustainable Development Program Limited	Audited Financial Statement for 2012 - 2016 not Submitted

(iii) NATONAL GOVERNMENT MAJORITY SHAREHOLDINGS IN OTHER COMPANIES

No.	Section	Para. No.	Entity	Status of Audit
1	C	78	Ok Tedi Mining Limited	2016 Audit Report Completed

Schedule 'E'

AUDIT IN AREARS (2015 AND PRIOR YEARS) COMPLETED DURING 2016/2017 AUDIT CYCLE

2015 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	2	Bank of Papua New Guinea	1
2	A	6	Cocoa Board of Papua New Guinea	1
3	A	6A	Cocoa Pod Borer Project Fund	1
4	A	6B	Cocoa Stabilisation Fund	1
5	A	10	Independence Fellowship Trust	1
6	A	12	Industrial Centres Development Corporation	1
7	A	19	National Agriculture Quarantine and Inspection Authority	1
8	A	30	National Maritime Safety Authority	1
9	A	34	National Road Safety Council	1
10	A	35	National Roads Authority	1
11	A	36	National Training Council	1
12	A	40	Ombudsman Commission of Papua New Guinea	1
13	A	41	Pacific Games (2015) Authority	1
14	A	45	Papua New Guinea Immigration and Citizenship Service Authority	1
15	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	1
16	A	52	Parliamentary Members' Retirement Benefits Fund	1
17	A	56	Tourism Promotion Authority	1
18	B	66	Motor Vehicles Insurance Limited	1
19	B	69	Papua New Guinea Ports Corporation Limited	1
20	B	70	PNG Air Services Limited	1
21	B	72	PNG Power Limited	1
				21

2014 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	9	Government Printing Office	1
2	A	12	Industrial Centres Development Corporation	1
3	A	16A	General Business Trust	1
4	A	16B	PNG Dams Limited	1
5	A	16C	Port Moresby Private Hospital Limited	1
6	A	21	National AIDS Council Secretariat	1
7	A	22	National Broadcasting Corporation	1
8	A	26	National Fisheries Authority	1
9	A	29	National Information and Communication Technology Authority (NICTA)	1
10	A	31	National Museum and Art Gallery	1
11	A	40	Ombudsman Commission of Papua New Guinea	1
12	A	41	Pacific Games (2015) Authority	1
13	A	45	Papua New Guinea Immigration and Citizenship Service Authority	1
14	A	46	Papua New Guinea Institute of Medical Research	1
15	A	48	Papua New Guinea Maritime College	1
16	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	1
17	A	51	Papua New Guinea University of Technology	1
18	A	54	Security Industries Authority	1
19	A	57	University of Goroka	1
20	A	58	University of Natural Resources and Environment (Vudal)	1

No.	Section	Para. No.	Entity	No. of Audits
21	A	60	Water PNG	1
22	B	62	Air Niugini Limited	1
23	B	65	Mineral Resources Development Company Limited	1
24	B	71	PNG DataCo Limited	1
25	B	74	Telikom (PNG) Limited	1
				25

2013 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	3	Border Development Authority	1
2	A	7	Cocoa Coconut Institute Limited of Papua New Guinea	1
3	A	8	Coffee Industry Corporation Limited	1
4	A	8A	Coffee Industry Fund	1
5	A	8B	Patana No.61 Limited	1
6	A	9	Government Printing Office	1
7	A	16B	PNG Dams Limited	1
8	A	16C	Port Moresby Private Hospital Limited	1
9	A	18	Mineral Resources Authority	1
10	A	21	National AIDS Council Secretariat	1
11	A	23	National Capital District Commission	1
12	A	24	National Cultural Commission	1
13	A	28	National Housing Corporation	1
14	A	29	National Information and Communication Technology Authority (NICTA)	1
15	A	47	Papua New Guinea Institute of Public Administration	1
16	A	50	Papua New Guinea Sports Foundation	1
17	A	51	Papua New Guinea University of Technology	1
18	A	54	Security Industries Authority	1
19	A	59	University of Papua New Guinea	1
20	B	65	Mineral Resources Development Company Limited	1
				20

2012 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	5	Climate Change and Development Authority	1
2	A	18	Mineral Resources Authority	1
3	A	28	National Housing Corporation	1
4	A	42	Papua New Guinea Accident Investigation Commission	1
5	A	47	Papua New Guinea Institute of Public Administration	1
6	A	50	Papua New Guinea Sports Foundation	1
7	A	54	Security Industries Authority	1
8	B	65	Mineral Resources Development Company Limited	1
				8

2011 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	28	National Housing Corporation	1
2	A	39	Oil Palm Industry Corporation	1
3	A	42	Papua New Guinea Accident Investigation Commission	1
4	A	50	Papua New Guinea Sports Foundation	1
5	B	67	National Airports Corporation Limited	1
				5

2010 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	50	Papua New Guinea Sports Foundation	1
				1

2009 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	50	Papua New Guinea Sports Foundation	1
				1

2008 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	50	Papua New Guinea Sports Foundation	1
				1

2007 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	50	Papua New Guinea Sports Foundation	1
				1

2006 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	50	Papua New Guinea Sports Foundation	1
				1

2005 AUDITS - COMPLETED DURING 2016/2017

No.	Section	Para. No.	Entity	No. of Audits
1	A	50	Papua New Guinea Sports Foundation	1
				1