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# **Report of the Auditor-General - 2010**

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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## **Part IV**

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



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28 October, 2011

***The Honourable Jeffery Nape, 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 28 October, 2011 upon the inspection and audit of the financial statements of the Public Bodies and their subsidiaries and National Government owned companies for tabling in the National Parliament. This Report (Part IV) also contains information on companies in which the Government does not hold majority interest. Section D of this Part of the Report contains information on the status of certain entities which have ceased operations and those entities audits of which have been in arrears.

Yours sincerely,

**PHILIP NAUGA**

*Acting Auditor-General*



# REPORT OF THE AUDITOR-GENERAL - 2010

## PART IV

### TABLE OF CONTENTS

<u>PARA NO.</u>	<u>SUBJECT</u>	<u>PAGE NO.</u>
	General .....	V
A.	Foreword .....	V
B.	Authority of Audit .....	V
C.	Audit of Public Bodies .....	VII
D.	Appointment and use of Authorised Auditors .....	VII
E.	Executive Summary .....	VIII

### SECTION A PUBLIC BODIES AND THEIR SUBSIDIARIES

<u>PARA NO.</u>	<u>SUBJECT</u>	<u>PAGE NO.</u>
1.	Foreword .....	1
2.	Bank of Papua New Guinea .....	3
3.	Border Development Authority .....	5
4.	Civil Aviation Safety Authority of Papua New Guinea .....	8
5.	Cocoa Board of Papua New Guinea .....	11
5A.	<i>Cocoa Stabilization Fund</i> .....	17
6.	Cocoa Coconut Institute of Papua New Guinea .....	20
7.	Coffee Industry Corporation Limited .....	25
7A.	<i>Coffee Industry Fund</i> .....	32
7B.	<i>Patana No. 61 Limited</i> .....	36
8.	Government Printing Office .....	39
9.	Independence Fellowship Trust .....	42
10.	Independent Consumer and Competition Commission .....	43
11.	Independent Public Business Corporation .....	44
11A.	<i>Aquarius 21 Limited</i> .....	56
11B.	<i>General Business Trust</i> .....	58
11C.	<i>PNG Dams Limited</i> .....	61
11D.	<i>Port Moresby Private Hospital Limited</i> .....	62
11E.	<i>Privatisation (Gardens Hills) Limited</i> .....	64

<u>PARA NO.</u>	<u>SUBJECT</u>	<u>PAGE NO.</u>
12.	Industrial Centres Development Corporation .....	66
13.	Investment Promotion Authority .....	69
14.	Kokonas Indastri Koporesen and its Subsidiaries .....	71
14A.	<i>Papua New Guinea Coconut Extension Fund</i> .....	72
14B.	<i>Papua New Guinea Coconut Industry Fund</i> .....	74
14C.	<i>Papua New Guinea Coconut Research Fund</i> .....	76
15.	Legal Training Institute .....	78
16.	Mineral Resources Authority .....	79
17.	Motu Koitabu Council and its Subsidiary .....	87
17A.	<i>Tabudubu Limited</i> .....	89
18.	National Agriculture Quarantine and Inspection Authority .....	90
19.	National Agriculture Research Institute .....	94
20.	National Aids Council .....	96
21.	National Broadcasting Corporation Limited .....	104
22.	National Capital District Commission and its Subsidiaries .....	108
22A	<i>National Capital District Botanical Enterprises Limited</i> .....	114
22B.	<i>Port Moresby City Development Enterprises Limited</i> .....	115
23.	National Cultural Commission .....	116
24.	National Economic and Fiscal Commission .....	118
25.	National Fisheries Authority .....	120
26.	National Gaming Control Board .....	124
27.	National Housing Corporation .....	127
28.	National Maritime Safety Authority .....	128
29.	National Museum and Art Gallery .....	131
30.	National Narcotics Bureau .....	134
31.	National Research Institute .....	137
32.	National Road Safety Council .....	139
33.	National Roads Authority .....	141
34.	National Training Council .....	145
35.	National Volunteer Service .....	150
36.	National Youth Commission .....	151
37.	Oil Palm Industry Corporation .....	153
38.	Ombudsman Commission of Papua New Guinea .....	154
39.	Papua New Guinea Forest Authority .....	156
40.	Papua New Guinea Institute of Medical Research .....	163
41.	Papua New Guinea Institute of Public Administration .....	165
42.	Papua New Guinea Maritime College .....	166
43.	Papua New Guinea National Institute of Standards and Industrial Technology .....	168



<b><u>PARA NO.</u></b>	<b><u>SUBJECT</u></b>	<b><u>PAGE NO.</u></b>
44.	Papua New Guinea Radio Communications & Telecommunications Technical Authority (PANGTEL) .....	170
45.	Papua New Guinea Sports Foundation .....	173
46.	Papua New Guinea University of Technology and its Subsidiary .....	175
46A.	<i>Unitech Development and Consultancy Company Limited</i> .....	179
47.	Parliamentary Members' Retirement Benefits Fund .....	180
48.	PNG Waterboard .....	181
49.	Public Curator of Papua New Guinea .....	182
50.	Security Industries Authority .....	183
51.	Small Business Development Corporation .....	184
52.	Tourism Promotion Authority .....	187
53.	University of Goroka .....	190
53A.	<i>Unigor Consultancy Limited</i> .....	192
54.	University of Natural Resources and Environment .....	194
55.	University of Papua New Guinea and its Subsidiary .....	199
55A.	<i>Univentures Limited</i> .....	200

## **SECTION B - NATIONAL GOVERNMENT OWNED COMPANIES**

<b><u>PARA NO.</u></b>	<b><u>SUBJECT</u></b>	<b><u>PAGE NO.</u></b>
56.	Foreword .....	203
57.	Air Niugini Limited .....	205
58.	Livestock Development Corporation Limited .....	206
59.	Mineral Resources Development Company Limited .....	210
60.	Motor Vehicles Insurance Limited .....	211
61.	National Airports Corporation Limited .....	212
61A.	<i>Civil Aviation Development Investment Programme (CADIP)</i> .....	213
61B.	<i>PNG Air Services Limited</i> .....	214
62.	National Petroleum Company of PNG (Kroton) Limited .....	216
63.	NCD Water and Sewerage Limited (Eda Ranu) .....	217
64.	Niugini Insurance Corporation Limited .....	219
65.	North Fly Highway Development Company Limited .....	220
66.	Papua New Guinea Ports Corporation Limited .....	221
67.	PNG Power Limited .....	227
68.	Post PNG Limited .....	239
69.	Telikom PNG Limited and its Subsidiaries .....	241
69A.	<i>Kalang Advertising Limited</i> .....	243
69B.	<i>PNG Directories Limited</i> .....	246

## **SECTION C - NATIONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES**

<b><u>PARA NO.</u></b>	<b><u>SUBJECT</u></b>	<b><u>PAGE NO.</u></b>
70.	Foreword .....	249
71.	Bougainville Copper Limited.....	251
72.	CTP (PNG) Limited .....	253
73.	Gogol Reforestation Company Limited.....	254
74.	Ok Tedi Mining Limited.....	255
75.	Pacific Forum Line Limited .....	256
76.	PNG Sustainable Development Program Limited .....	257

## **SECTION D - PROBLEM AUDITS**

<b><u>PARA NO.</u></b>	<b><u>SUBJECT</u></b>	<b><u>PAGE NO.</u></b>
77.	Foreword.....	261
	77.1 <i>Dormant Entities</i> .....	261
	77.2 <i>Exclusion of Entities from Future Reports</i> .....	261
78.	Audits in Arrears .....	262
	78.1 <i>General</i> .....	262
	78.2 <i>Responsibility for preparation of Financial Statements</i> .....	262
	78.3 <i>Legislative Requirements</i> .....	263
	78.4 <i>Current Year Audits (2010 Audits)</i> .....	263
	78.5 <i>Status of Current Year Audits</i> .....	265
	78.6 <i>Audits in Arrears (2009 and prior years)</i> .....	267
	78.7 <i>Long Outstanding Financial Statements</i> .....	270
	Acknowledgements.....	275
	Schedule A - Current Year Audits .....	276
	Schedule B - Status of Audits in Arrears.....	279
	Schedule C - Long Outstanding Financial Statements .....	281
	Schedule D - Non-Operational Entities and Others .....	283
	Schedule E - 2007 Audits completed during 2010/2011 .....	284
	Schedule F - Status of Audits during the year 2010/2011 .....	287
	Schedule G - Types of Audit Opinions Issued during 2010/2011.....	288

## **GENERAL**

### **A. FOREWORD**

My Annual Report to the National Parliament for the 2010 financial year is presented in four Parts. Part I deals with the Public Accounts of Papua New Guinea. 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 and Section C deals with Companies in which the National Government has shareholdings. Section D is an additional section which provides details of entities that have ceased operating and those other entities the audits of which have been in arrears due to non-submission of financial statements.

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

### **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, insofar 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 *National 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 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 Act requires me to audit the financial statements of the public bodies and to report an opinion to the aforementioned Ministers on:

- (i) whether the financial statements are based on proper accounts and records;
- (ii) whether the financial statements are in agreement with those accounts and records; and
- (iii) 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, 1995**

The submission of the financial statements of the public bodies for audit is required under Section 63(4) of the *Public Finances (Management) Act, 1995*.

The section requires each public body to prepare and furnish to its Minister before 30 June each year, a report on its operations for the year ended on 31 December 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, 1997**

I am required to audit National Government owned companies and subsidiary companies under the provisions of the *Companies Act, 1997*.

Though these companies are registered under the *Companies Act*, my responsibility to audit them is by virtue of Sections 48 and 63 of the *Public Finances (Management) Act* 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 and performance audits.

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

### **C.2 Audit Objectives**

Under the *Companies Act*, I am required to ascertain whether proper accounting records have been kept; whether the financial statements comply with generally accepted accounting practice; and whether those financial statements give a true and fair view of the matters to which they relate. The Act also requires the auditor to report the instances of non-compliance with these requirements. More details on the audit responsibilities under the *Companies Act* are provided in paragraph 56 which covers the National Government owned companies.

### **C.3 Reporting Framework**

My audits are conducted in accordance with 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 International Accounting Standards and the Statutory requirements.

## **D. APPOINTMENT AND USE OF AUTHORISED AUDITORS**

Section 8(5) of the *Audit Act, 1989 (as amended)*, 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.

## **2010 AUDITOR-GENERAL'S REPORT – PART IV**

### **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 2010 to June 2011 (2010/2011 Audit Cycle). The Report covers the audits of these entities' financial statements for a number of years, and not just 2010.

In **2010** there were **88 public entities** subject to audit by my Office, consisting of **71 Public Bodies and their Subsidiaries** and **17 National Government Owned Companies**.

I am also responsible for reporting on the audits of **6 Companies**, in which the National Government has a minority shareholding, that are audited by the private sector. These are reported under **Section C** of this Report.

#### **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 poor state of the financial management structure in most public entities whose statements are subject to my audit and inspection.

#### **E.3 Submission of current year Financial Statements**

Section 63(4) of the *Public Finances (Management) Act, 1995* 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, 1989 (as amended)*.

Despite these legislative requirements, **49 entities** had not submitted their **2010 financial statements** to be audited and overall some **62 financial statements for 2009** and prior years had not been submitted for audit (**Refer Table 1 and Schedule 'F'**).

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

Table 1

## STATUS OF AUDITS DURING THE YEAR 2011 (END OF 2010/2011 CYCLE)

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Total 2010/2011	Total 2009/2010
2010	11	11	8	3	49	82	84
2009	26	14	5	2	23	70	74
2008	23	8	4	2	11	48	51
2007	18	3	2	-	8	31	29
2006	2	1	2	-	6	11	17
2005	1	1	3	-	5	10	13
2004	1	1	3	-	4	9	9
2003	-	-	3	-	4	7	6
2002	-	-	1	-	1	3	2
2001	1	-	-	-	-	1	1
2000	1	-	-	-	-	1	1
1999	1	-	-	-	-	1	1
1998	1	-	-	-	-	1	-
<b>Total</b>	<b>87</b>	<b>39</b>	<b>31</b>	<b>7</b>	<b>111</b>	<b>275</b>	<b>288</b>

**Table 1** also shows that **157 audits** were completed, substantially completed or still in progress as at 30 June, 2011. **Table 1** also shows that of the **87 audits completed**, only **11 were for the current year (2010)**, with **19 current year's audits** substantially completed or were in progress. A further **3 audits** were to commence shortly. The list of entities is at **Schedule 'A' (i), (ii), (iii) and (iv)**.

#### E.4 Type of Audit Opinions Issued<sup>1</sup>

In the period covered by the audit, **87 audit opinions were issued**. Of the **87 audit opinions issued**, **17 were unqualified**, **32 were qualified**, **36 were Disclaimer Opinions** and **2 were Adverse Opinion**.

Of the **17 unqualified opinions issued**, **10** related to prior years and only **7** were for 2010 as follows:

- Bank of Papua New Guinea;
- Independent Consumer and Competition Commission;
- General Business Trust;
- National Agriculture Research Institute;
- Ombudsman Commission;
- Tourism Promotion Authority; and

<sup>1</sup> 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 transaction of the Company being audited. **Disclaimer** – When insufficient competent evidential matter exist to form an audit opinion due to scope limitation or uncertainties Disclaimer of Opinions issued. **Adverse** – The Company's financial statements do not present fairly the financial position, results of operation, or changes in financial position or are not in conformity with generally accepted accounting principles.

- Post (PNG) Limited.

Three of the qualified opinions related to 2010 and others were for prior years. The number of Disclaimer Audit Opinions issued are reflection of the poor state of accounting record keeping in a number of public bodies.

The list of entities and the type of audit opinions issued during the period July 2010 to June 2011 are provided in **Schedule ‘G’**.

## **E.5 Key Findings**

The key findings from the audits centred around 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 *Public Finances (Management) Act, 1995*, requires each public body to prepare and furnish to its Minister before 30 June each year, a report on its operations for the year ended 31 December preceding together with financial statements in respect of that year duly audited by me for tabling in Parliament.

This legislative requirement has not been strictly adhered to by all respective public entities’ managements. 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 **82 public entities** (excluding 4 non operational and/or deregistered companies and 2 entities transferred to Provincial Government Audit Branch) only **33 entities (Refer Schedule A (i), (ii), (iii) & (iv))** submitted their financial statements for 2010 for my audit and inspection up to the time of preparing this Report. While **49 entities (Refer Schedule A (iv))** failed to comply with these provisions.

As I have stated in previous years’ reports, the failure of public entities to comply with this legislative requirement results in:

- *My Office may 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 recommends***

- *A vigorous enforcement of the provisions of Section 63 of the Public Finances (Management) Act; and*
- *A legislative requirement to make the renewal of contracts of Chief Executive Officers subject to submission of financial statements and prudent financial management.*

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

Details of audits that have gone into arrears due to non submission of financial statements are given below in **Table 2** and **Schedule 'C'**.

**Table 2**

### **Financial Statements not Submitted**

No.	Section	Para No.	Entity	Year in Arrears	Audits in Arrears 2009 & Prior Years
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	1	2009
2	A	8	Government Printing Office	1	2009
3	A	11C	PNG Dams Limited	2	2002 & 2003
4	A	17A	Tabudubu Limited	4	2003-2006
5	A	21	National Broadcasting Corporation	1	2009
6	A	22	National Capital District Commission and its Subsidiaries	1	2009
7	A	22A	National Capital District Botanical Enterprises Limited	1	2009
8	A	22B	Port Moresby City Development Enterprises Limited	4	2006-2009
9	A	24	National Economic and Fiscal Commission	3	2007-2009
10	A	26	National Gaming Control Board	1	2009
11	A	27	National Housing Corporation	1	2009
12	A	30	National Narcotic Bureau	7	2003-2009
13	A	35	National Volunteer Service	3	2007-2009
14	A	37	Oil Palm Industry Corporation	1	2009
15	A	39	Papua New Guinea Forest Authority	2	2008 & 2009
16	A	40	Papua New Guinea Institute of Medical Research	1	2009
17	A	42	Papua New Guinea Maritime College	1	2009
18	A	45	Papua New Guinea Sports Foundation	7	2003-2009
19	A	46	Papua New Guinea University of Technology	1	2009
20	A	46A	Unitech Development and Consultancy Company Limited	3	2007-2009
21	A	49	Public Curator of Papua New Guinea	5	2004-2008
22	A	53	University of Goroka	1	2009

23	A	53A	Unigor Consultancy Limited	5	2005-2009
24	A	55	University of Papua New Guinea	2	2008 & 2009
24	B	58	Livestock Development Corporation Limited	1	2009
26	B	61	National Airports Corporation Limited	2	2008 & 2009

### ***My Arrears Reduction Strategies***

During the last Audit Cycle, I have taken 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:

- (i) Forwarding reminder letters to entities on a regular basis until the submission of the financial statements.
- (ii) Copies of these reminder letters were forwarded to the Public Accounts Committee and to the Secretary for Finance for their necessary action.
- (iii) My officers have visited various entities and had meeting with the Chief Executive Officers regarding non-submission of the financial statements and drew their attention to the responsibility under the *Public Finances (Management) Act* and resultant breach of the *Public Finances (Management) Act*.

## **E.7 Non-Compliance of the Salaries and Conditions Monitoring Committee Act, 1998**

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 *Salaries and Conditions Monitoring Committee Act, (SCMC) 1998* which stipulates:

- “(1) *The provisions of this Act apply notwithstanding anything in any other relating to the determination of salaries and conditions or employment of employees of a public authority; and*
- (2) *Where by 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**

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.

- (i) Petromin Limited
- (ii) National Development Bank Limited

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

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

- bank reconciliation statements not being prepared in a timely way or not being prepared at all;
- transactions not having supporting documentation;
- fixed assets' 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 Commissions regulations on payment of taxes not being followed;
- entities paying housing allowances and Boards members allowances without tax but allowing officers to pay the tax;
- accounting, administrative and procedural manuals not being available;
- public servants serving on Statutory Boards receiving Board allowances contrary to regulations;
- ineffective internal audit functions; and
- ineffective budget controls.

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

## 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 *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 finance management is yet to be absorbed 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 exist in all public entities subject to my audit. For that to be achieved, I believe that Chief Executive Officers are required to exercises 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; and*
- *Entity financial management that is carried out by qualified and experienced accountants.*

### **E.12 Improvement Strategies**

In my view, for improvement to occur:

- *Chief Executive Officers must employ trained accounting staff to manage the financial affairs of the organization;*
- *Chief Executive Officers must understand the value of and how to implement a strong governance framework; and*
- *Parliament must increase its reviews of the management of public entities and provide Chief Executive Officers with the incentives to improve their management structures.*

### **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.**

## **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, 1989 (as amended)*. My responsibilities in that regard are detailed in paragraph 1.2 of this part of my Report.





## **2. BANK OF PAPUA NEW GUINEA**

### **2.1 INTRODUCTION**

#### **2.1.1 Legislation and Objectives of the Bank**

The Bank of Papua New Guinea 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*.

The main objectives of the Bank of Papua New Guinea as stipulated in the new Act are:

- (a) to formulate and implement the monetary policy with a view to achieving and maintaining price stability;
- (b) to formulate financial regulation and prudential standards to ensure stability of the financial system in Papua New Guinea;
- (c) to promote an efficient national and international payments system; and
- (d) subject to the above, to promote macro-economic stability and economic growth in Papua New Guinea.

#### **2.1.2 Functions of the Bank**

The primary functions of the Bank are to:

- (a) issue currency;
- (b) act as banker and agent of the Government;
- (c) regulate banking, credit and other financial services as empowered by the Act or by any other law of the Independent State of Papua New Guinea;
- (d) manage the gold, foreign exchange and other international reserves of Papua New Guinea;
- (e) perform any function conferred on it by or under international agreement to which Papua New Guinea is a party;
- (f) perform any other functions conferred on it by or under any other law of Papua New Guinea; and
- (g) advise the Minister as soon as practicable where the Bank considers that a body regulated by the Central Bank is in financial difficulty.

### **2.1.3 Structural Reforms at the Bank**

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

- (a) The *Banks and Financial Institutions Act, 2000*,
- (b) The new *Superannuation Act, 2000*, and
- (c) The new *Life Insurance Act, 2000*.

Each of these Acts provides additional responsibilities to the Bank.

## **2.2 AUDIT OBSERVATIONS**

### **2.2.1 Comments on Financial Statements**

My report to the Minister under *Section 8* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Bank for the year ended 31 December, 2010 was issued on 24 June, 2011. The report 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 The Objectives of the Authority**

The objectives of the Authority are to manage and fund development activities in the Border Provinces of Papua New Guinea 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:-

- (a) the co-ordination of the planning, and implementation of capital works, infrastructure and socio-economic programs in respect to:-
  - (i) education, health care, road network, communication, transport system, electricity, water, sewerage and all activities relevant to the improvement of basic living standards in the border provinces;
  - (ii) liaison with public bodies, non-government organisations and private enterprise in identifying and negotiating sources of funding for short to medium term activities;
  - (iii) 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;
  - (iv) the supervision and monitoring of the implementation of all contracts relating to such capital and infrastructure works;
  - (v) the transformation of border provinces into agro financial sector by developing their respective natural resources; and
  - (vi) the promotion of investors both foreign and local into the border provinces and to encourage and facilitate international cross border and inter border trade.
- (b) the establishment of programs and regulatory framework for immigration including the monitoring of immigrants and immigrant activity along the border with respect to:-

- (i) 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, communication, transport, electricity, water, sewerage, staff accommodation, computers and all other facilities that would be relevant to the administration of border activities;
  - (ii) 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
  - (iii) the development of long term activities for the establishment of infrastructure and other facilities.
- (c) such other functions as are likely to assist in the border administration activities.

## **3.2 AUDIT OBSERVATIONS**

### **3.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2009 was issued on 04 February, 2011. The report did not contain any qualification.

#### **“AUDIT OPINION**

In my opinion:

- (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 Border Development Authority as at 31 December, 2009 and the financial operations of the Authority for the year then ended.”

#### **OTHER MATTERS**

##### **1. Authorisation/Approval Limits**

I noted that the Minister for Finance and Treasury had delegated to the Border Development Authority Board the financial approval powers for transactions for acquisition of property and services over K500,000 to a upper limit of K10,000,000. I observed 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)*.

##### **2. Contribution to Political Parties**

I noted that the Border Development Authority had paid a total of K30,000 to a political party while the Authority's Act does not provide for such payment.

### **3.3 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, 2010 for my inspection and audit.

## **4. CIVIL AVIATION SAFETY AUTHORITY OF PAPUA NEW GUINEA**

### **4.1 INTRODUCTION**

#### **4.1.1 Legislation**

The Civil Aviation Authority of Papua New Guinea was established in November, 2000 by the enactment of the *Civil Aviation Act, 2000*.

#### **4.1.2 Functions of the Authority**

The principal functions of the Authority are to undertake activities that promote safety in civil aviation at a reasonable cost; ensure the provision of air traffic services, aeronautical communications services and aeronautical navigation services; ensure the provision of meteorological services and science; and to own, operate, manage and maintain airports.

### **4.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **4.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2007 was issued on 16 May, 2011. The report was a Disclaimer of Opinion.

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **1. Limitation of Scope regarding Opening Balances**

My report on the financial statements of the Authority for the year ended 31 December, 2007 was disclaimed on the basis of limitation of scope due to lack of information and adequate supporting evidence. Consequently, I am unable to determine the accuracy of the opening financial position of the Authority as at 1 January, 2007 because the results for the year ended 31 December, 2006 enter into the determination of the opening balances as at 1 January, 2007 and therefore the financial performance for the year ended 31 December, 2007. Due to the size and fundamental nature of the matters referred to, I am unable to determine whether the results of the Authority for the year and the net assets at year end are fairly stated.

##### **2. Fixed Assets - K1.46b (Transfer of State Assets - K1.42b)**

As explained in *Note 11* to the financial statements, the State transferred assets from the Department of Civil Aviation to Civil Aviation Authority at the net book value of K1,420,382,222. The value of these fixed assets was obtained from a “Kramer Report”. As per the agreement between the State and Civil Aviation Authority, dated March 2007, all assets in the twenty two (22) airports and various other locations in the nineteen (19) provinces including National Capital District were transferred.

However, the full Kramer Report was not provided for audit purposes and no detailed fixed assets register was provided to confirm the values and the items transferred. I was also not provided with any revaluation report and physical verification report to support the transfer of these significant assets. In addition, no internal audit report on fixed assets came to my notice.

Further, I was not provided the documentation to verify whether the prior year's carrying values of K4.6m were included or revalued at the same time. Due to the uncertainty, size and the fundamental nature of the transfers referred to, I am unable to determine the values, existence, location and the propriety of the fixed assets transfers and the value now stated for the year ended 31 December, 2007.

**3. Total Liabilities - K39.42m**

Total Liabilities are stated as K39.42m in the financial statements. However, no appropriate supporting documents to support the balances were disclosed and further, no third party confirmations regarding the account balances were presented in relation to Trade Creditors. Also, no invoice register was maintained to check and authenticate that all unrecorded liabilities had been properly recorded in the books of accounts for the year ended 31 December, 2007.

Consequently, I was unable to satisfy myself as to the completeness and accuracy of the Total Liabilities balance of K39.42m which comprises K16.73m of Trade and Other Payables and K22.69m of Unused Grants as at 31 December, 2007.

**4. Total Revenue - K84.72m**

Total Revenue was disclosed as K84.72m in the financial statements. However, revenue transactions totalling K64.5m were not verified to confirm their accuracy and completeness due to the lack of supporting documentation. Therefore, I am unable to confirm the completeness and accuracy of the total revenue disclosed in the financial statements at year end.

**5. Total Expenses - K96.63m**

Total expenditure is disclosed as K96.63m in the financial statements. Included in this amount is depreciation expenses of K16.4m which related to assets transferred by the State as disclosed in *Notes 7 & 11*. I am unable to confirm the completeness and accuracy of these balances disclosed in the financial statements as I was not provided the supporting documentation to verify these expenses for the year ended 31 December, 2007.

**6. Equity - K1.42b**

The total equity balance is made up of capital reserve (K1,418,863,000) and government reserve (K6,007,000). The capital reserve balance resulted from the transfer of fixed assets from Department of Civil Aviation and the government reserve account relates to the opening accumulated retained earnings and the current loss.

I was unable to verify the account balance due to the lack of appropriate supporting documents and supporting schedules.

## **DISCLAIMER OF AUDIT OPINION**

Because of the significance of the matters described in the Basis for the Disclaimer of Opinion, 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 Civil Aviation Authority for the year ended 31 December, 2007.

## **OTHER MATTERS**

In accordance with the *Audit Act, 1989 (as amended)*, I have a duty to report on significant matters arising out of the financial statements, to which the report relates. I draw attention to the following issues;

### **1. Goods and Services Tax (GST)**

The Authority did not prepare and submit GST returns to the Internal Revenue Commission (IRC) for the year under review. The failure to comply with the GST provisions may result in late payment and non-lodgement penalties being levied by IRC against the Civil Aviation Authority.

### **2. Internal Audit**

The Internal Audit Division of the Authority did not appear to be functioning effectively as was evidenced by the lack of internal audit work performed during the year under my review.

### **3. Non-Assessment of Contingent Liability**

In the year 2007, the Authority's pending legal cases were not disclosed in the financial statements. I requested for confirmation from the Authority's lawyers to report all legal cases and quantum of liabilities involved, but I was not supplied any information."

## **4.3 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, 2008 has been completed and the results were being evaluated.

The financial statements of the Authority for the year ended 31 December, 2009 and 2010 were not submitted for my inspection and audit.



## **5. COCOA BOARD OF PAPUA NEW GUINEA**

### **5.1 INTRODUCTION**

#### **5.1.1 Legislation**

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

#### **5.1.2 Functions of the Board**

The principal functions of the Board are: to control and regulate the growing, processing, marketing and export of cocoa and cocoa beans and the equalisation and stock holding arrangements within the cocoa industry; to promote research and development programmes for the benefit of the cocoa industry; and to promote the consumption of Papua New Guinea cocoa beans and cocoa products.

#### **5.1.3 Subsidiary**

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 Industri Koporesen of Papua New Guinea. Comments in relation to the PNG Cocoa Coconut Institute Limited are contained in paragraph 6 of this Report (Part IV).

### **5.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **5.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Board for the years ended 30 September, 2007 and 2008 were issued on 6 August and 14 September, 2010 respectively. The 2007 and 2008 reports contained similar Qualified Audit Opinions hence, only the 2008 report is reproduced as follows:

#### **“BASIS FOR QUALIFIED AUDIT OPINION**

##### **1. Debtors and Prepayments**

Included in the total debtors and prepayments of K312,166 reported in the financial statements, are amounts totalling K68,067 which consist of fraudulent payments made to former employees who had left the employ of the Board, hence, I was unable to satisfy myself as to the recoverability of these amounts. Since no documentary evidence was provided for my review, I was unable to satisfy myself as to the completeness of the closing debtors and prepayment balances at year end.

## 2. Investments

The financial statements disclosed investments of K480,006 at year end of which K280,006 represented shares held in PNG Cocoa Coconut Institute Limited (*Formerly PNG Cocoa and Coconut Research Institute & PNG Cocoa Coconut Extension Agency*). However, PNG Cocoa Coconut Institute Limited disclosed only K266,003 as 50% investment from Cocoa Board in its financial statements. Since no share certificates were made available for my verification, I was unable to verify the accuracy of the investment balance as stated at year end.

## 3. Fixed Assets

The Board's total Fixed Assets amounted to K1,465,598 for the year ended 30 September 2008. Included in this account balance are land and buildings with a carrying value of K77,853 and K706,013 respectively. I was not provided the registered title deeds in relation to these land and buildings. Further, the Board did not carry out any physical stock take to ascertain the assets owned by the Board and its physical condition. As a result, I am unable to state the propriety and the ownership of these buildings as disclosed by the Board at 30 September 2008.

## 4. Going Concern

The Board has prepared its financial statements on a going concern basis. However, the National Court in its ruling of 19 March, 2010 awarded Agmark Pacific Limited K4,885,260 plus 8% interest and costs. This was subsequent to an earlier decision on 27 July, 2007 whereby an award of K6,292,441 was made against Cocoa Board. These rulings resulted from legal proceedings against Cocoa Board of Papua New Guinea allegedly for collections of Stabilisation Bounty illegally without the Minister's approval.

Further, should the appeal made in 2010 fail, the Board will not be able to pay the K4,885,260 within 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.

## QUALIFIED AUDIT OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Audit Opinion paragraphs, the financial statements of the Cocoa Board of Papua New Guinea for the year ended 30 September, 2008:

- (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 *Public Finances (Management) Act, 1995* and generally accepted accounting practice.

## **OTHER MATTERS**

In accordance with the *Audit Act, 1989 (as amended)*, I have duty to report on significant matters arising out of the financial statements to which the report relates. I draw attention to the following issues.

### **1. Differences in the Opening Balances of the General Ledger**

Differences were noted in the opening balance of the general ledgers in relation to Trade Creditors (K2,326), Goods and Services Taxes (K43,605), Trade Debtors (K35,521), Rental Bonds (K2,367) and Staff Advances (K5,199). Adjusting journal entries were passed to correct the opening balances on the general ledger to agree to the audited financial statements of 30 September, 2007. However, I was not provided the relevant journals and supporting documentation in relation to the adjustments, which I consider as immaterial on aggregate to further qualify the financial statements for the year ended 30 September, 2008.

### **2. Report under *Public Finances (Management) Act, 1995***

The Board is required to submit an annual report on performance and management and a quarterly report on all investment decisions, a detailed report on investments, performance and returns for each year and a five year investment plan (up-dated each year) setting out investment policies, strategies and administrative systems to be pursued and providing forecasts of investment flows and returns. However, I noted that the management did not submit its relevant reports as required under *Section 63 (2)* of the *Public Finances (Management) Act, 1995* to the Minister for the year ended 30 September, 2008.”

## **5.2.2 Audit Observations Reported to the Ministers**

My reports to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Board for the years ended 30 September, 2007 and 2008 were issued on the 6 August and 14 September, 2010 respectively. The 2007 and the 2008 reports contained similar comments in addition to the qualifications, hence, only the 2008 report is reproduced as follows:

### **1. Board of Directors**

The *Cocoa Board of Papua New Guinea* was operating without a Board for the Cocoa season ending 30 September, 2008. As there was no Board, executive and strategic decisions may have been made without the Board's consent. I noted that the corporate governance structure of the Board was weak and lacked executive direction and control.

In response to my observations the management informed that decisions requiring the Board's deliberation and approval in those periods were referred to the Secretary of the Department of Agriculture and Livestock as stipulated by the *Cocoa Act, 1981*.

### **2. Accounting Administration and Procedural Manual**

The Board does not have an Accounting, Administration and Procedural Manual in place for the daily operations. In the absence of the documentation in relation to systems and controls, I had no basis to measure the standards of operations in existence. I also noted that the Board was not aware of the requirements of the *General Orders* or the *Public Finances (Management) Act, 1995*.

In response to my recommendation for the Board to adopt an Accounting, Administration and Procedural Manual in line with the *General Orders* of the Public Services and the *Public Finances (Management) Act, 1995*, the Board informed me that a manual would be drafted with the assistance of a consultant and Department of Personal Management for formal adoption by the Board.

### **3. Review of Board's Salary and Wages**

In my review of the staff positions and the pay structure, I noted that there were no reviews conducted by the Board on a periodic basis. In the absence of a salary review and a restructure of the Board positions, staff and job marketability of the Board positions were deemed to have been non competitive and had affected staff morale for staff performing comparable job classifications as those in the market.

I recommended the Board to review the salary structure, the staff and organizational requirements and restructure to cater for CPI adjustments and comparable job marketability and it concurred with my observations and informed that a review was done by a consultant but was not implemented as the review was not finalized and submitted to Salaries and Conditions Monitoring Committee (SCMC) for its approval.

#### **4. Goods and Services Tax – K175,458**

*Note 12* to the financial statements disclosed Goods and Services Tax Payable as K175,458, however in my review of the account, I noted that remittance of the GST Returns were not done periodically to the Internal Revenue Commission as stipulated by the *Goods and Services Tax Act, 2003*.

I recommended management to lodge the Goods and Services Tax returns periodically as stipulated by the *Act* and the management agreed to pursue the recommendation.

#### **5. Staff Advances – K52,111**

*Note 14* to the financial statement showed that advances granted to the staff members had increased by K40,822 (2007: K11,289) in the year ended 30 September, 2008. In compliance with the *Public Finances (Management) Act, 1995* outstanding advances should have been recouped in the year of the advance, however, I noted that the Board did not comply with the requirements of advance acquittal and recoveries.

I recommended management to take heed of the requirements of the *Public Finances, (Management) Act, 1995* and was informed that the Board had since ceased paying such advances, except for duty travel related advances, however, that had not been the case as is evidenced by additional advances of K40,822 during the year.

#### **6. Amount of K6,292,441 awarded by National Court against the Board**

*Note 8* to the financial statements refers to events after balance date whereby the National Court in its ruling of 27 July, 2007 awarded K6,292,441 against the Board to Agmark Pacific Limited. On 19 March, 2010 the Court changed the award to K4,885,260. The latter Court Order, ordered the Board and the State to pay with 8% interest within 21 days and to meet the costs of the proceedings. Agmark Pacific Limited had sued the Board for illegal collection of Stabilisation Bounty since the Minister had not gazetted the bounty collection as required under the *Cocoa Act, 1981* and thereby deeming as illegal the bounty collected and used by the Board between January, 1997 and October, 1999.

The case was not defended adequately and as a result, the Board had appealed against the verdict. I brought this to the attention of Management and have since been advised that the Board had engaged a private lawyer to take the matter further and an appeal was lodged at the Supreme Court of Papua New Guinea in 2010.

## **7. Fixed Assets**

The Board did not provide registered title deeds and documentary evidence for all the buildings that were stated as owned by the Board. I was unable to determine the propriety and the validity of the ownership of these land and buildings totalling K77,853 and K706,013 respectively as the title deeds provided of the mentioned properties were not registered in the name of the Board. I was promised by the Board that the title deeds for the property mentioned as Section 34 Allotment 11 would be provided in due course. Further, the Board did not carry out any physical stock take to ascertain the assets owned by the Board and its physical condition.

In response to my observations the Board informed me that a staff had been recruited to perform the stock take of all fixed assets and a new software program was adopted to cater for the Board's assets in the future.

## **8. Differences in Opening Balances**

Differences were noted in the opening balance of the general ledgers in relation to Trade Creditors (K2,326), Goods and Services Taxes (K43,605), Trade Debtors (K35,521), Rental Bonds (K2,367) and Staff Advances (K5,199). I noted that adjusting journal entries were passed to correct the opening balances on the general ledger to agree to the audited financial statements of 30 September 2007. However, I was not provided the relevant journals and supporting documentation in relation to the adjustments.

In response to my queries, the management informed the variances came about due to the incorrect opening balances that were inherited from the previous years. Due to the back log of outstanding financial statements, the accounts were rolled over without closing the accounts in the MYOB Accounting System and as a result, incorrect balances were reported as opening balances in the subsequent accounting period.

## **5.3 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 Board for the years ended 30 September, 2009 and 2010 were completed and the results were being evaluated.

## **5A. COCOA STABILISATION FUND**

### **5A.1 INTRODUCTION**

#### **5A.1.1 Legislation**

The Cocoa Stabilisation Fund was established under *Section 18* of the *Cocoa Act, 1981*. The Fund is administered by the Cocoa Board of Papua New Guinea with the objective of establishing price stabilisation, price equalisation and stockholding arrangements within the cocoa industry.

### **5A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **5A.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the years ended 30 September, 2006, 2007 and 2008 were issued on 29 November, 2010. The reports contained similar Disclaimer Audit Opinions, hence, only the 2008 audit report is reproduced as follows:

#### **“BASIS FOR DISCLAIMER AUDIT OPINION**

##### **QUALIFICATIONS**

- 1.** I audited the Statement of Receipts and Payments of Cocoa Stabilisation Fund for the year ended 30 September, 2007 and issued a disclaimer of opinion on them. Consequently, I was unable to quantify the effects of any material misstatement on the opening balances that might have a bearing on the balances reported for the year ended 30 September, 2008. Therefore, I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances that would have consequential effect on the Statement of Receipts and Payments for the year ended 30 September, 2008, and the comparative amounts presented.
- 2.** In *Note 2* to the financial statements, Loans and Advances made to the Cocoa Board of Papua New Guinea were stated as K562,240. However, the audited financial statements of the Cocoa Board for the year ended 30 September, 2008 disclose the amount as K343,999 payable to the Stabilisation Fund. I was not provided the necessary explanations and the supporting documentation regarding the variance of K218,241 that was evident in the disclosure and as a result, I am unable to satisfy myself as to the accuracy or correctness of the account balance.
- 3.** As stated in the Statement of Receipts and Payments, the total stabilisation receipts were disclosed as K51,389. I was not provided with confirmations from the exporters to substantiate the outstanding amount. Consequently, I am unable to conclude on the accuracy of this amount.

## DISCLAIMER OF AUDIT OPINION

In my opinion, because of the significance of the matters discussed in the preceding paragraphs, I am not in a position to and do not express an opinion as to whether the accompanying statement gives a true and fair view of the revenue collected and loan repayments by the Cocoa Stabilisation Fund during the year ended 30 September, 2008 in accordance with the receipts and disbursements basis as described in *Note 1 (IV)*."

### 5A.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Fund for the years ended 30 September, 2006, 2007 and 2008 were issued on 29 November, 2010. These reports contained similar comments, hence, only the 2008 report is reproduced as follows:

#### 1. Stabilisation Receipts (K51,389)

As stated in the Statement of Receipts and Payments, the total stabilisation receipts of K51,389 was banked into the Cocoa Board's Account. I was not provided with confirmations from the exporters to substantiate the outstanding amount. Consequently, I was unable to conclude on the accuracy of this amount. The management informed me that this amount represented levies that were incorrectly paid into the Cocoa Board's main account by an exporter, as proper records were not kept then. This amount was now included in the provision for doubtful debts.

#### 2. Cocoa Quality Improvement (K130,600)

As a directive from the then Minister for Agriculture and Livestock, K67,215 was paid to several suppliers in the year ended 30 September, 2008 to comply with the National Governments export driven policy to increase the country's Cocoa production by increasing the supply of seedlings. However, I was not able to sight the documentation in relation to the acquittal of these funds. Further, the disbursement of these funds was without stipulated guidelines and policy for the application of these monies as the Fund's activities were to be measured against its outputs in the industry. Contrary to this, I was informed by the Board that, "*the NEC had approved the amount of K2.5 million that was held in the Cocoa Stabilisation Fund Account for Grant Assistance to the industry to be used for Cocoa Quality Improvement program, Seeds Garden Establishment and Subsidy Scheme and a Strategic Review Program*".



### **3. Non Compliance with *Cocoa Act, 1981***

*Section 24* of the *Cocoa Act, 1981* relates to Payments from the Cocoa Stabilization Fund. All costs necessarily incurred by the Board in administering the Fund are to be reimbursed by the Fund with the approval of the Minister and in compliance with the Board's duty under *Section 10(e)*; and for the purchase of cocoa beans and cocoa products in accordance with *Section 23*. However, in three (3) instances, the Fund unlawfully paid amounts totalling K67,215 to Garamut Enterprise (K28,000), Agmark Pacific (K27,737) and Blue Diesel Limited (K11,478) without the required Ministerial approval and for the purposes stipulated by these provisions of the Act.

I was informed by the management that, *“the payments made from the Cocoa Stabilisation Fund were done after the National Executive Decision (NEC Decision No. 319/2006) to write off the outstanding Cocoa Industry Price Support Loan (K26.2 Million) and abolish the Cocoa Stabilisation Fund and convert the K2.5 million as Grants Assistance to the Industry.”*

#### **5A.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Fund for the years ended 30 September, 2009 and 2010 were completed and the results were being evaluated.

## **6. COCOA COCONUT INSTITUTE LIMITED OF PAPUA NEW GUINEA (FORMERLY PNG COCOA AND COCONUT RESEARCH COMPANY LIMITED)**

### **6.1 INTRODUCTION**

#### **6.1.1 Legislation**

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

#### **6.1.2 Functions of the Company**

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

### **6.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **6.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Company's financial statements for the year ended 31 December, 2007 was issued on 30 September, 2010. The report contained a Disclaimer of Opinion.

#### **“BASIS FOR DISCLAIMER OF AUDIT OPINION**

##### **Accounting Records**

The general ledger and trial balance for the year 2007 were very unreliable. The opening balances of assets, liabilities and equity accounts did not agree to the 2006 audited financial statements and most closing balances as per the 2007 trial balance were not supported by appropriate schedules or reconciliations. Consequently, I was unable to utilise the general ledger to confirm the accuracy of the amounts disclosed in the financial statements as at 31 December, 2007.

##### **Financial Statements**

The financial statements for the year ended 31 December, 2007 is unreliable as a result of anomalies identified in the disclosures therein. The Balance Sheet has an unexplained difference of K1,595,400 between the Net Assets amount of K13,988,431 with total Share Capital and Reserves amount to K12,393,031. There were also material differences noted between certain amounts disclosed in the balance sheet and corresponding notes to the financial statements.

No satisfactory explanation was provided for these discrepancies. As a result, I am unable to rely on the accuracy and completeness of the financial statements balances as at balance date.

### **Fixed Assets**

The carrying value of fixed assets at 31 December, 2007 was K8,359,627. A difference of K12,000 existed between the fixed assets value recorded in the financial statements and the balances as per the general ledger. The depreciation schedule for the year 2007 was not provided to me for review. An amount of K249,263 recorded as works in progress in the assets listing comprising of fixed assets additions are yet to be allocated to the respective asset's categories and depreciated accordingly. Consequently, I was unable to determine the completeness, existence, accuracy and valuation of the fixed assets balance and the impact of these factors on the financial statements as at 31 December, 2007.

### **Closing Stock**

The Company has recorded stock as K911,691 in the financial statements as at 31 December, 2007 which included some stock items with credit balances while some balances have remained unchanged from previous years. The existence and value of the stock figure of K911,691 could not be substantiated due to non availability of correctly valued physical stock take records at balance date.

### **Trade Debtors**

No reconciliation and supporting documents for debtors were available. No provision for doubtful debts were made despite some debtors balances remaining unchanged from previous years. As a result of the above, I was not able to confirm the completeness and accuracy of the debtors balance of K1,111,548 disclosed in the financial statements as at 31 December, 2007.

### **Cash and Bank**

Bank reconciliation for twenty two (22) out of a total fifty-nine (59) bank accounts maintained were not available for my audit verification. Some differences were also noted between cash at bank balances per general ledger and the respective bank reconciliations as at 31 December, 2007. As a result, I was unable to confirm the accuracy of cash at bank and on hand balance of K5,885,074 and bank overdraft of K235,115 disclosed in the financial statements as at 31 December, 2007.

### **Trade Creditors and Accruals**

Trade creditors and accruals were recorded as K2,574,840 in the financial statements. No reconciliations and supporting documentation were available to verify the balances recorded in the financial statements. This balance is a result of debiting various debit balances amounting to K2,337,854 from the total Creditors and Accruals total of K4,912,694 as per the General Ledger. As a result, I cannot confirm the accuracy and completeness of total creditors and accruals balance disclosed in the financial statements as at 31 December, 2007.

**Provisions**

The Company was unable to provide satisfactory records in respect of Cocoa and Coconut Extension Agency Limited staff provisions of K299,552 transferred to the Company after the Extension Agency merged with the Company. An under provision of K278,063 exists between the Attaché Payroll System leave liability report of K1,033,488 and financial statements gross balance of K755,425. Further, the staff net provision of K332,603 included a debit balance of K422,822 as staff leave fares which was not appropriately recorded in a provision account. As a result, I was unable to satisfy myself as to the accuracy of the provisions included in the financial statements.

**Inter-company Account Balance**

The amount of K1,407,495 disclosed as Inter-company account in the financial statements was incorrect. This comprised transfer of funds from one (1) bank account to another within PNG Cocoa and Coconut Institute Limited itself. This account should have a zero balance at balance date. As a result of this inconsistency, I was unable to satisfy myself as to the accuracy of this balance.

**Issued Share Capital**

The records currently held at the Investment Promotion Authority office disclosed the issued share capital to be 100,000 ordinary shares of K1.00 each and not 452,000 ordinary shares valued at K532,006 as recorded in the financial statements as at 31 December, 2007. As a result, I was unable to confirm as true and correct the amount disclosed in the financial statements as at 31 December, 2007.

**Unspent Grants**

Unspent Grants (liability) balance of K543,201 disclosed in the financial statements had remained unchanged from the previous year and included INCO Beetle Grant account with a debit balance of K67,529 in which no explanation was provided. A difference of K94,267 existed between the unspent grants liability accounts and the corresponding donor grant bank accounts (asset). Therefore, I was unable to confirm the accuracy of the unspent grants balance of K543,201 as at 31 December, 2007.

**DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of the *PNG Cocoa Coconut Institute Limited* for the year ended *31 December, 2007*.”

### 6.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Company for the year ended 31 December, 2007 was issued on 20 September, 2010. The report contained the following observations.

**1. Control over Assets**

A proper fixed assets register was not maintained to record and monitor the location, custody, usage and condition of all assets controlled by PNGCCI and further, management had not undertaken any physical inspection of the assets. In addition, the depreciation schedule for 2007 was not made available for my inspection and material differences were noted between the general ledger and the financial statements. As a result, it was not practical to satisfy myself as to the existence and control over these assets.

**2. Trade Creditors and Accruals**

The incurrence of liabilities is a major concern with total trade creditors and accruals standing at K2,574,840 for 2007. There was an apparent weakness in the management's ability to take measures to manage the escalating costs.

**3. Collection of Debtors**

Total receivables of K1,111,548 recorded as at 31 December, 2007 must be confirmed and aggressively pursued and collected. These are significant funds needed by the Institute but tied up. The management was advised to take measures to realize these debts to enable the settling of its liabilities.

**4. Company Statutory Records**

Serious differences were noted between the statutory records maintained by the Company and those records held by the Investment Promotion Authority (IPA). I advised management to identify the outstanding issues with IPA to avoid deregistration as well as to confirm the validity of the Company's issued share capital and appointment of Company's Secretary and Directors.

**5. Expenditure Control**

Analytical reviews done on expenses indicated substantial increases in operational costs incurred, and management was advised to apply cost control measures to create savings to offset the existing liabilities.

**6. Plantation Productivity**

Site inspections and interviews indicated that the management of plantations was poor and the full potential of these plantations were not fully realized, which led to under production. Management was advised to improve management practice and seek funding to increase its capacity to generate internal revenue.

**7. Corporate Governance Issues**

There were issues with the management that needed urgent attention and in particular, the immediate appointment of a permanent Chief Executive Officer was needed to bring about stability in the overall management of the Institute. A suitably qualified and permanent Accountant was also needed to rectify all the accounting weakness highlighted in the audit reports and to ensure that prudent management of the company's financial affairs occurs. Further, a permanent Plantation Manager was required to take control of the rehabilitation of the plantations and nursery. In addition, a permanent Human Resource Manager was required to effectively address and resolve all outstanding personnel related issues. The parameters of the areas of responsibility between the Board Chairman and Chief Executive Officer must be clearly defined so that similar management problems do not recur in the future.

**6.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements for the years ended 31 December, 2008 and 2009 had been submitted for my inspection and audit, and arrangements are being made to commence the field work shortly. The financial statements for the year ended 31 December, 2010 had not been submitted for my inspection and audit.

## **7. COFFEE INDUSTRY CORPORATION LIMITED AND ITS SUBSIDIARIES**

### **7.1 INTRODUCTION**

#### **7.1.1 Legislation**

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

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

#### **7.1.2 Functions of the Corporation**

The principal functions of the Corporation are: to engage in research, extension, promotion, marketing, administration, management and control of the coffee industry in Papua New Guinea; to act in the best interests of coffee producers; and to promote development of the coffee industry in Papua New Guinea.

#### **7.1.3 Subsidiary of the Corporation**

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

### **7.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **7.2.1 Comments on the Financial Statements**

In accordance with the provisions of the *Companies Act, 1997*, my report on the financial statements of the Corporation for the year ended 31 December, 2009 was issued on 24 November, 2010. The report contained a Qualified Audit Opinion:

## **“BASIS FOR A QUALIFIED AUDIT OPINION**

### **1. Trade and Other Debtors-K4,661,213**

#### **1.1 Goods and Services Tax Receivables (GST)-K3,700,446**

The financial statements disclosed K4,661,213 as Trade and Other Debtors, of which K3,700,446 was GST receivables. This amount accumulated from 1999. The National Executive Council (NEC) had made a decision to waive the GST liability of the Coffee Industry Corporation for the period up to 2005 in respect of export levy. In that regard, an amount of K4,840,600 was paid in 2007 by the State to Internal Revenue Commission (IRC) to settle the GST liability.

Although, this amount was paid to IRC and an assessment letter was received from them, the GST receivable was not reconciled with GST payables, group tax adjusted to determine the exact amount receivable from IRC.

#### **1.2 Rent Receivables-K104,063**

The financial statements disclosed K104,063 as rent receivables. However, I was not provided with all the lease agreements signed between the tenants and the complete schedule of the rent receivables. Further, some of the tenants vacated the properties without settling their outstanding rents which have been outstanding for a long period. In addition, I was not provided with the corporation's policy statement in respect of provision for unrecoverable outstanding debts to determine the completeness of the rental outstanding.

#### **1.3 Directors Advances-K52,198**

Director's advance of K52,198 was related to unrecovered advances made to directors who were no longer with the Corporation's Board.

That resulted from the Directors refusal to have their debts deducted from their final entitlements/payouts. Therefore, the Management decided to keep these debts receivable so as to act as a deterrent mechanism to stop these individuals returning to the CIC Board. I was not provided with the Corporation's policy statement on outstanding advances and also had not sighted any evidence in the form of follow up letters notifying the Directors of their debts.

#### **1.4 Department of Lands-K50,000**

A receivable of K50,000 from the Lands Department has been outstanding since 1998. The last correspondence and follow up letters were made in 2006 and a recent one was done on 28 June, 2010 after the field audit was completed.



**1.5 Legal Fees Receivables-K3,400,000**

An amount of K3,400,000 was the legal cost awarded to the Corporation by the National Court against Panga Coffee Factory. However, the principal owner who was the only shareholder of the company died in 2007. Further, the company was deregistered on 22 June, 2002. As a result, the recovery of this legal cost is considered doubtful.

**1.6 Levy Receivables-K251,962**

A sum of K251,962 was levy receivable from M/s. Panga Coffee Factory. Recovery of this levy was also doubtful, since the company was deregistered in 2002 and the principal owner of the company died in 2007.

**1.7 Other Debtors-K835,590**

Other receivables amounted to K833,047. However, adequate source documents were not made available to me to review the accuracy and its receivable status at the time of audit.

Consequently, I was unable to ascertain the accuracy and completeness of the balance of K4,661,213 (after provision for doubtful debts of K3,759,354) taken up as trade and other receivables as at 31 December, 2009.

**2. Fixed Assets-K10,420,998**

**2.1** The assets depreciation schedule provided did not contain complete quantitative and qualitative details of all the assets owned by the Corporation. Further, the descriptions, additions, disposals, location and current status of the assets could not be verified due to the incomplete state of the schedule.

In addition, four (4) motor vehicles sold in 2009 (Cost K146,487; Depreciation K129,450) were still included in the depreciation schedule causing the assets value and depreciation charged to be overstated in the accounts.

**2.2** An amount of K769,487 was included in fixed assets as work in progress (WIP), of which K751,158 was carried forward since 2005. I was not provided with adequate documentation to verify whether it was appropriate to continually disclose this figure as WIP. WIP completed and not transferred to the appropriate assets would overstate the net assets as depreciation on these assets would not be provided.

In the above circumstances, I was unable to determine whether the net assets of K10,420,999 have been appropriately depreciated, measured and accounted for at year end.

### **3. Creditors and Accruals-K10,092,486**

#### **3.1 Goods and Services Tax Payables (GST)-K5,873,146**

The financial statements disclosed K10,092,486 as Creditors and Accruals, of which K5,873,146 was GST payables. This amount accumulated from 1999. The National Executive Council (NEC) had made a decision to waive GST liability of the Coffee Industry Corporation for the period up to 2005 in respect of export levy. In that regard an amount of K4,840,600 was paid in 2007 to pay the GST liability to Internal Revenue Commission (IRC).

Although this amount was paid to IRC and an assessment letter was received from them, the GST payable was not properly adjusted. As a result, the exact status whether there was a net receivable or payable to IRC cannot be established.

#### **3.2 Group Tax-K3,142,337**

Group tax payable to Internal Revenue Commission amounting to K3,142,337 was outstanding and accumulated since 1992. I was informed that this liability will be off-set against the GST receivables, once the GST payables issue is resolved. However, the documents made available to me disclosed that K1,481,624 of the above outstanding tax liability had already been off-setted against the balance of K4,840,600 paid to IRC in 2007 towards the Corporation's GST liability.

The Corporation had not reconciled the accounts based on the available documents and the amount disclosed was not appropriate.

As such, I was unable to determine the appropriateness of the balance of K3,142,337 as group tax payable disclosed in the financial statements as at 31 December, 2009.

#### **3.3 Rental Bonds Payables-K58,215**

The documents and schedules provided did not agree to the amount of K58,215 taken up as rental bonds in the financial statements. The internal controls operated in maintaining documents were not adequate and insufficient to confirm this balance.

### 3.4 Business Withholding Tax (BWHT)-K196,910

An amount of K196,910 was disclosed as business withholding tax (BWHT) outstanding as at 31 December, 2009. I was not provided with adequate documents to determine when this tax was deducted for the contractors and when it became due to Internal Revenue Commission (IRC).

Consequently, I was unable to determine the appropriateness of the balance of K10,092,486 taken up as creditors and accruals in the financial statements as at 31 December, 2009.

## 4. Income and Expenditure Statement-K3,223,242 (Loss)

### 4.1 Rental Income - K689,034

The Corporation had not provided to me a complete schedule for all its rentals received during the year to determine the completeness of the income received.

In the above circumstances, I was unable to ascertain the accuracy of the balance of K689,034 taken up as Rental Income as at 31 December, 2009.

## QUALIFIED AUDIT OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the qualification paragraphs:

- (a) The financial statements of Coffee Industry Corporation Limited;
  - (i) Give a true and fair view of the state of affairs of the Corporation as at 31 December, 2009, the results of its operations and the cash flows for the year then ended; and
  - (ii) Comply 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 Coffee Industry Corporation Limited as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required except for the matters referred to in other matters.”

## OTHER MATTERS

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

**(i) Coffee Export Levy - K5,409,271**

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.

**(ii) Short Term Loan - K138,755,002**

I bring your attention to the matter noted in Note 11 to the financial statements. An amount of K138,755,002 was shown as loan receivables and then off-setted by a provision of an equal amount thus reducing the net balance to nil. This loan represented the principal plus interest accrued for a number of years from a loan provided in 1988 to the exporter, Panga Coffee Factory Pty Limited.

However, the Panga Coffee Factory (the Company) was deregistered in 2002 by the Investment Promotion Authority (IPA) for non-compliance of its requirements. The only shareholder of the Company also died in 2007 and the company was subsequently liquidated. As such, the recoverability of the principal loan and interest thereon were considered not possible.

Therefore, the Corporation should make a final decision to determine whether to carry this amount as an asset in its books in future.

**7.2.2 Audit Observation Reported to the Ministers**

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December, 2009 was issued on 24 November, 2010. The report contained the following comments:

**(i) 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)*.

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. I brought this to the attention of management and it responded that *“All contract officers receiving these allowances are directed by management to lodge their personal income taxes annually. The accountant wrote to IRC requesting for tax variation forms and was given a tax file number to file personal income instead”*.

My view continues to be that without evidence of tax variations approved by the IRC, officers receiving such allowances must be fully taxed.

### **7.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Corporation had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.

## **7A. COFFEE INDUSTRY FUND**

### **7A.1 INTRODUCTION**

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

### **7A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **7A.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the year ended 31 December, 2009 was issued on 24 November, 2010. The report contained a Qualified Audit Opinion.

#### **“BASIS FOR A QUALIFIED AUDIT OPINION**

##### **1. Other Debtors and Prepayments-K274,043**

###### **1.1 Goods and Services Tax Receivables (GST)-K77,902**

The financial statements disclosed K274,043 as Other Debtors and Prepayments, of which K77,902 was GST receivables. This was accumulated from 2002. The National Executive Council (NEC) had made a decision to waive GST liability of the Coffee Industry Fund in respect of export levy up to 2005 and a sum of K4,840,600 was paid in 2007 to pay the GST liability to Internal Revenue Commission (IRC).

Although, this amount was paid to IRC and an assessment letter was received from them, the GST payable or receivable was not properly adjusted and disclosed. The exact position as to whether there is a net receivable or net payable to IRC had not been established.

As such, I was unable to determine the appropriateness of showing K77,902 as receivable in the financial statements.

## **1.2 Interest Withholding Tax- K15,709**

Coffee Industry Corporation (CIC) and Coffee Industry Fund (CIF) are exempted from income tax under *Section 27 (c) of the Income Tax Act, 1959 (as amended)*. Therefore these two (2) organizations are not subject to *Interest Withholding Tax (IWHT)* under *Section 186 (4) (a)* of the same Act.

However, interest withholding tax deducted from interest received on interest bearing deposits (IBD) held up to 2008 amounting to K51,548 was not included in the balance of K15,709. Relevant documentation of its receipts were not provided for my verification.

Consequently, I was unable to ascertain the accuracy and completeness of the balance of K15,709 taken up as interest withholding tax receivables as at 31 December, 2009.

## **1.3 Interest Receivables-K37,307**

The financial statements disclosed K37,307 as accrued interest receivable from interest bearing deposits (IBD). However, during the year, total interest earned was K385,343. Of this, K369,585 was credited to the company's operating account with the principal after deducting approximately K15,759 as interest withholding tax (IWHT). Therefore, the actual interest receivable for 2009 should have been K15,758 and not K37,307 as stated above.

Consequently, I was unable to determine the accuracy of the balance of K37,307 taken up as interest receivable as at 31 December, 2009.

## **2. Investments-K7,388,132**

The financial statements disclosed K7,388,132 as investments in Interest Bearing Deposits. However, the bank had confirmed that the IBD balance as at 31 December, 2009 was K7,421,530 leaving an unreconciled difference of K33,398.

Consequently, I was unable to ascertain the accuracy of the balance of K7,388,132 disclosed as investments in Interest Bearing Deposits in the financial statements for the year ended 31 December, 2009.

### **3. Trade and Other Creditors-K309,338**

#### **3.1 Business withholding Tax-K47,000**

A total sum of K47,000 was deducted from various contractors as business withholding tax but was not paid to Internal Revenue Commission (IRC) since 2003.

I was not provided with adequate documentation to justify this overdue liability and I was further not convinced with the explanation given by the management that this liability will be paid in full by December, 2010.

Therefore, I was unable to determine the appropriateness of the balance of K47,000 shown as business withholding tax as at 31 December, 2009.

#### **3.2 Group Tax-K231,250**

Group tax amounting to K231,250 was payable since 2003. This was deducted from the remuneration of the employees and liable to be paid within seven (7) days in the following month of the deduction but was outstanding for the last six (6) years.

I was not provided with adequate documentation to justify this anomaly and not settling this liability and also I was not convinced with the explanation given by the management that this liability will be paid by December, 2010.

As such, I was unable to determine the appropriateness of the balance of K231,250 shown as group tax payable in the financial statements as at 31 December, 2009.

### **4. Goods and Services Tax (GST) Payable - K1,421,819**

According to Note 8 of the financial statements, this amount represented the Goods and Services Tax (GST) on variable levies for the period July, 1999 to December, 2000. However, I was not provided with the complete documentation in respect of total GST liability to enable me to determine the exact liability of the Fund.

In the above circumstances, I was unable to ascertain the accuracy of the balance of K1,421,157 taken up as Goods and Services Tax as at 31 December, 2009.



## **5. Operating Income - K143,405**

The operating income of the Fund of K143,405 was made up of the interest income earned during the year of K373,494 from the IBD less expenses paid of K230,889. However, the gross interest income earned for the year was K385,343, whereas only K373,494 was taken up as interest income, thus resulting in the income being understated by K11,849.

In the above circumstances, I was unable to determine the accuracy of the operating income of K143,405 taken up in the financial statements as at 31 December, 2009.

### **QUALIFIED AUDIT OPINION**

In my opinion, except for the effects of the matters referred to in the qualification paragraphs, the financial statements of the Coffee Industry Fund comply with generally accepted accounting practice, and give a true and fair view of the Fund's affairs as at 31 December, 2009 and of the results and cash flows for the year then ended."

#### **7A.2.2 Audit Observations Reported to the Ministers**

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Fund for the year ended 31 December, 2009 was issued on 24 November, 2010 and expressed generally satisfactory results.

#### **7A.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Fund for the year ended 31 December, 2010 had not been submitted for my inspection and audit.

## **7B. PATANA NO. 61 LIMITED (A SUBSIDIARY OF COFFEE INDUSTRY CORPORATION LIMITED)**

### **7B.1 INTRODUCTION**

Patana No. 61 Limited was incorporated under the *Companies Act*. The Company was acquired by the Coffee Industry Corporation Limited on 10 February, 1994 and has a total issued capital of two (2) ordinary shares of K1.00 each. The Company is wholly owned by the Coffee Industry Corporation Limited. The principal activity of the Company is to invest in property.

### **7B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **7B.2.1 Comments on the Financial Statements**

My report to the members of Patana No. 61 Limited in accordance with the provisions of the *Companies Act, 1997*, on the financial statements for the year ended 31 December, 2009 was issued on 24 November, 2010. The report contained a Qualified Audit Opinion:

#### **“BASIS FOR A QUALIFIED AUDIT OPINION**

##### **Fixed Assets-K616,444**

The Company had not maintained a fixed assets register to enable me to verify the measurement and completeness of the assets, its present status and the accuracy of the depreciation claimed on these assets for the year ended 2009. Further, the assets purchased over the years and used by the Company were accounted in the Coffee Industry Corporation’s fixed assets register, which is not appropriate.

In 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 K616,444 in the financial statements for the year ended 31 December, 2009.

##### **Inter-Company Loan-K806,393**

I was not provided with the loan agreement entered into between the Company and the parent organization - Coffee Industry Corporation (CIC) 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 entity.

I was therefore unable to ascertain the validity and accuracy of the loan amount disclosed as K806,393 in the financial statements as at 31 December, 2009.

### **Going Concern**

The attached financial statements were prepared on a going concern basis. But the Company had not generated any income since being incorporated except claiming only depreciation on the fixed assets and disclosed a negative balance of K189,098 as reserves. I was also not provided with any documentary evidence that the parent Corporation 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 going concern basis.

### **Non-Compliance of International Financial Reporting Standards**

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

### **Operating Loss - K8,854**

No rental income was received from the tenants occupying the Company's facilities (units and houses) for the year. I was informed that Coffee Industry Corporation (CIC) officers were occupying these properties, but no rents had been collected from the occupants. Alternatively, no lease rentals were paid by the parent organization - CIC.

This practice of rent free accommodation provided to another organization was not a sound business practice. Once a company is incorporated it becomes a legal person doing commercial business and as such, it should be operating on its own to generate income and meet the expenses and determine whether any profit or loss is made for the year.

Consequently, I was unable to ascertain the appropriateness of the business practice followed by the Company and disclosing a business loss of K8,854 on account of providing depreciation on its fixed assets for the year ended 31 December, 2009.

### **QUALIFIED AUDIT OPINION**

In my opinion, except for the effects on the financial statements of the matters referred to in the qualification paragraphs:

- (a) The financial statements of Patana No. 61 Limited;
  - (i) Give a true and fair view of the state of affairs of the Company as at 31 December, 2009 and the results of its operations for the year then ended; and

- (ii) Comply 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 Patana No. 61 Limited as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required except for the matters referred to in the qualification paragraphs.”

#### **7B.2.2 Audit Observations Reported to the Ministers**

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Company for the year ended 31 December, 2009 was issued on 24 November, 2010. The inspection and audit revealed generally satisfactory results.

#### **7B.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Company had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.

## **8. GOVERNMENT PRINTING OFFICE**

### **8.1 INTRODUCTION**

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

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

#### **8.1.2 Objective of the Government Printing Office**

The main objective of the 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 affordable cost.

### **8.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **8.2.1 Comments on the Financial Statements**

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements of the Printing Office for the year ended 31 December, 2008 was issued on 30 March, 2011. The report contained a Disclaimer of Opinion.

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **1. Limitation on the Scope of my Audit**

Due to the disclaimer of opinion issued in respect of the year ended 31 December, 2007, I was unable to satisfy myself as to 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. The general ledger and trial balance generated by the present system did not agree with the financial statements by an aggregate amount of K102,262. I was not provided with any valid explanation for the differences. As a result, I was unable to form an opinion regarding the accuracy of the financial records maintained by the Office and the closing balances stated in the financial statements.

##### **2. Trade Debtors**

The trade debtors balance has been stated as K6,304,354 at the year end. However, I noted that cash sales totalling K398,342 was also included in this balance and no valid explanation was given for its inclusion. As such, I was unable to satisfy myself as to the accuracy and completeness of the trade debtors balance at the year end.

**3. Inventory**

I was unable to independently verify and conclude on the accuracy, valuation and existence of the inventory balance of KNil, (2008: K559,774) due to lack of supporting documentations. Further, no physical verification was carried out at the year end by the office.

**4. Goods and Services Tax**

My review of the GST account revealed that again the Printing Office had not prepared monthly GST reconciliations and submitted them on a timely basis to Internal Revenue Commission (IRC). I drew management's attention to Sections 63 and 85 of *GST Act, 2003*, which stipulates the due dates for remittance and penalties for defaults. As such, I was unable to independently verify the Goods and Services Tax (GST) of K1,053,696 due to lack of proper reconciliations and supporting documentation.

**5. Revenue**

My review of the revenue account revealed that there was no audit trail and as a result, I was unable to execute all my planned audit procedures. I have in my past audit reports emphasised the importance of this account to management but still no improvements have been made. There was no correlation between job orders, printed materials, invoices, receipts and banking details. As such, I was unable to conclude on the accuracy and valuation of the revenue balance of K6,351,626 as stated in the financial statements.

**6. Property, Plant and Equipment**

My review of the Fixed Assets Register (FAR) revealed that the register (FAR) was not properly maintained and updated showing additions and disposals of assets during the year with supporting documentations. Consequently, I noted several fixed asset items with negative balances. No valid explanations were given for these negative balances. As such, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K3,607,131 at the year end.

**7. Cost of Goods Sold**

I noted that the Printing Office made a total payment of K2,091,093 for cost of goods sold to various suppliers during the year. However, I was unable to confirm whether the goods/supplies were actually received as there were no delivery dockets and receipt reports. Accordingly, I was unable to satisfy myself as to the authenticity and reliability of this balance.

The permanent staff salary cost and other entitlements had not been incorporated into the financial statements to reflect the true cost of the Office. Further, the Government Printer's report on page 4 of the financial statements disclosed that permanent staff salaries and benefits of approximately K500,000 were paid directly by the State. I was unable to verify the correctness of this balance in the absence of any supporting documentation.

## **8. Related Party Transaction**

I observed that a prepayment of K150,000 was made to a Jack's Investment Limited for some supplies to be provided later. I was unable to sight the delivery dockets or receipt reports in relation to this prepayment. As such, I was unable to verify whether supplies had been received. Further, it was noted that the Government Printer was one of the six (6) shareholders and one of the two (2) directors of this said company. This information has not been disclosed as related party transaction in the financial statements.

## **DISCLAIMER OF OPINION**

Because of the significance of the matters referred to in the preceding 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, 2008."

## **8.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Government Printing Office, despite numerous reminders, had not submitted its financial statements for the years ended 31 December, 2009 and 2010 for my inspection and audit.

## **9. INDEPENDENCE FELLOWSHIP TRUST**

### **9.1 INTRODUCTION**

#### **9.1.1 Legislation**

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

The object 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.

#### **9.1.2 Functions of the Trust**

The functions of the Trust are:

- to make selections of candidates to receive the awards of fellowships;
- to determine the number and value of awards; and
- to invest the funds of the Trust.

### **9.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements for the year ended 31 December, 2010 had not been submitted by the Trust for my inspection and audit.



## **10. INDEPENDENT CONSUMER AND COMPETITION COMMISSION**

### **10.1 INTRODUCTION**

#### **10.1.1 Legislation**

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

#### **10.1.2 Functions of the Commission**

The main functions of the Commission are: to formulate and submit to the Minister, policies in the interest of consumers; consider and examine and, where necessary, advise the Minister on the consolidation or updating of legislation providing protection to the consumer; liaise with Departments and other agencies of Government on matters relating to consumer protection legislation; receive and consider complaints from consumers on matters relating to the supply of goods and services; investigate any complaint received; make available to consumers general information affecting the interests of consumers; liaise with business, commercial and professional bodies and associations in order to establish codes of practice to regulate the activities of their members in their dealings with consumers; advise consumers of their rights and responsibilities under laws relating to consumers protection; promote and participate in consumer education activities; establish appropriate systems whereby consumer claims can be considered and redressed; liaise with consumer organisations, consumer affairs authorities and consumer protection groups overseas and to exchange information on consumer issues with those bodies; arrange for the representation of consumers in court proceedings relating to consumer matters; and to do all other things relating to consumer affairs.

### **10.2 AUDIT OBSERVATIONS**

#### **10.2.1 Comments on the Financial Statements**

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements for the year ended 31 December, 2010 was issued on 30 March, 2011. The 2010 report did not contain any qualification.

## **11. INDEPENDENT PUBLIC BUSINESS CORPORATION**

### **11.1 INTRODUCTION**

The Independent Public Business Corporation 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 Papua New Guinea (Amendment) Act, 2007* and the objectives and functions of the Corporation were changed.

A major impact of the amendments made in the amended Act 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 *Public Finances (Management) Act, 1995*. 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 08 June, 2007.

#### **11.1.1 The objectives of the Corporation shall be:-**

- (a) 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;
- (b) 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 National Executive Council;
- (c) to enhance the financial position of the State or State Owned Enterprises; and
- (d) to enter into and perform financial and other arrangements that in the opinion of the Corporation have as their objective either:-
  - (i) the advancement of the financial interests of the State or State Owned Enterprises; or
  - (ii) the development of the State or any part thereof.

#### **11.1.2 Functions of the Corporation**

- (1) 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.
- (2) Without limiting the generality of Subsections (1) but subject to the provisions of this Act, the Corporation:

- (a) may undertake the function of holding and monitoring corporation for State owned assets and Majority State Owned Enterprises;
- (b) may undertake the function of planning, coordinating and managing State assets, infrastructure and projects; and
- (c) may determine policies regarding:
  - (i) the conduct of its affairs and the affairs of any of the Trusts;
  - (ii) the administration, management and control of the Corporation and any of the Trusts; and
- (d) may borrow, raise or otherwise obtain financial accommodation in Papua New Guinea;
- (e) may advance money or otherwise make financial accommodation available to the State or State Owned Enterprises;
- (f) may act as a central borrowing and capital raising authority for State Owned Enterprises;
- (g) may act as agent for State Owned Enterprises in negotiating, entering into and performing financial arrangements;
- (h) may provide a medium for the investment of funds of State Owned Enterprises;
- (i) may manage or cause to be managed the Corporation's financial rights and obligations; and
- (j) has such other functions and duties as are prescribed by the Act or any other Act.

## **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, 1989 (as amended)*, on the Corporation's financial statements for the year ended 31 December, 2009 was issued on 18 January, 2011. The report contained a Qualified Audit Opinion.

#### **“BASIS FOR QUALIFIED AUDIT OPINION**

##### **1. Other Receivables - K4,543,118**

###### **1.1 Business Travel Advances - K98,367**

Other receivables of K4,543,118 included K98,367 attributed to business travel advances. Inadequacies in the management of these advances noted during the audit are as follows:

- At the time of my audit some of the officers had left the organization but the travel advances paid to them were still included under the receivables.
- All the schedules for overseas business travel advances and their acquittals for 2009 were not made available for my review to determine the accuracy of the balance stated.

As a result, I was unable to ascertain the accuracy and completeness of the balance of K98,367 taken up as business travel advances as at 31 December, 2009.

## **1.2 Rental Bonds – K227,082**

Rental bonds amounting to K227,082 included K8,748 paid to four (4) ex-employees who had left the Corporation in October, 2009. My review disproved the assurance from the Corporation that the rental bonds from the four (4) ex-employees were recovered from their final entitlements.

Further, the lease agreements of all the properties leased by the Corporation for the accommodation of its officers were not made available for my review to determine the accuracy of the total rental bonds value taken up in the accounts.

In addition, the lease agreements entered with the land-lords for the officers engaged on the Lae Tidal Basin Project were not signed and stamped to secure authenticity.

Consequently, I was unable to validate the accuracy and completeness of the balance of K227,082 taken up as rental bonds at 31 December, 2009.

## **1.3 Lae Port Project Recoverable Costs - K3,977,857**

Recoverable cost totaling K3,977,857 attributable to Lae Port Project was disclosed under other receivables in the financial statements. The work commenced in 2008, however, the audited financial statements of the Project for 2008 and 2009 were not made available for my review to verify the accuracy of the balance taken up in IPBC's financial statements.

Consequently, I was unable to determine the accuracy of the balance of K3,977,857 taken up as recoverable cost from the project as at 31 December, 2009.

## **2. Related Party Balances – K13,040,831**

The financial statements disclosed K13,040,831 as receivables due from related parties under non- current assets. I was not able to verify this balance due to the following:

**2.1** A receivable of K3,158,831 from Port Moresby Private Hospital Limited

(POMPH) included rental income totalling, K1,017,470 received from the Hospital for the years 2006 to 2009 which was not adjusted from the K3,158,831. Therefore, the related party balance was overstated by K1,017,470. Further, the audited financial statements of POMPH for the years 2007, 2008 and 2009 were not made available for my review to confirm the inter-company balances in the books of POMPH for the respective years.

- 2.2 Rental income totaling K1,017,470 from the Port Moresby Private Hospital for the years 2007, 2008 and 2009 was shown as payables in the books of General Business Trust (GBT) as at 31 December, 2009. The accounting of rental income from the Hospital in the GBT accounts as payables and the expenses in the IPBC accounts as receivables was an inappropriate treatment and not consistent with the relevant accounting policy. The correct treatment should have been to adjust the rental income in the IPBC books against receivables from POMPH.
- 2.3 Receivables from Investment Corporation of Papua New Guinea (ICPNG) were disclosed as K335,859. However, the accounts of the ICPNG were not audited since 2002. The audit of ICPNG's accounts was one of the requirements in the vesting notice G 33 dated 06 April, 2004, but to date this requirement has not been met. Therefore, the exact status of ICPNG's financial position could not be determined to confirm whether the above receivables were in fact payable to IPBC.
- 2.4 Receivables from Aquarius No. 21 Limited was disclosed as K86,997. However, the audited financial statements of Aquarius No. 21 Limited for the years 2007, 2008 and 2009 were not made available for my review to determine the accuracy of the inter-company balance in its books for the year of audit and the prior years.

Further, the 2006 audited financial statements of Aquarius No. 21 Limited disclosed a vacant land at Portion 1570 Granville, National Capital District as its only asset. However, the lease of the land expired in 2000 which indicates that the land was not legally owned by the Company. As such, no asset was owned by the Company to extinguish its liability owed to IPBC.

- 2.5 Receivables from Department of Public Enterprises and Department of Communication and Information were disclosed at K4,343,840 and K209,546 respectively. These amounts were paid from the General Business Trust operational fund. The fund was allocated by the Trust to Independent Public Business Corporation for its own normal operations as Trustee. Having paid these departmental expenses, the Corporation then disclosed the amounts as related party balances. There was no evidence on files confirming any obligation on the two departments to reimburse the GBT operational funds.

The above accounting treatments were not based on appropriate accounting practice or policy on fair presentation of the financial statements in compliance with *International Financial Reporting Standards (IAS-1)-Presentation of Financial Statements*.

In view of the above, I was unable to ascertain the correctness and validity of showing K13,040,831 as related party balances under Non-Current Assets in the financial statements for the year ended 31 December, 2009.

### **3. Fixed Assets - K1,164,853**

The Corporation's policy on accounting of fixed assets and depreciation was not consistent as follows:

- 3.1** The purchase of two vehicles at a cost of K154,160 for the Department of Public Enterprises and accounted for in the books of IPBC as receivables was incorrect.
- 3.2** The vehicle with registration number BCT 524 (originally BCG 437) bought in 2007, shown in 2009 as fixed assets, depreciated and disposed, was not depreciated in 2007 and 2008 resulting in an overstatement of income.

The value of these vehicles were not included with Motor Vehicles in year 2007 and 2008 thereby resulting in an understatement of assets value.

Further, I was not provided with necessary documents to verify whether any depreciation has been charged by the Department during those years to ensure that no double depreciation had been claimed on these vehicles from two (2) organizations for the respective years. Nor was I provided with evidence that these vehicles were not taken up as assets in the books or the Department of Public Enterprises.

Accounting for the cost of the motor vehicle after two (2) years in the books of the Corporation for an asset which was owned and used by another organization during the years did not comply with measurement, recognition and depreciation of an asset criteria as required by *International Financial Reporting Standards (IAS-36) Property, Plant and Equipments*.

As such, I was unable to determine the accuracy of the measurement of additions and depreciation provided of fixed assets and of the balance disclosed as K1,164,853.

### **4. Assets Held for Sale - K1,209,612**

The carrying value of certain fixed assets held for sale (office furniture and fittings) at 31 December, 2009 was K1,209,612. These assets were bought in 2000 for the Deloitte Tower office, but the decision to sell was later abandoned. The initial cost of these assets was K1,210,612 but depreciated since 2003 up to 2006. The Corporation stopped providing depreciation in 2007 and showed the net value of these as Assets Held for Sale.

However, in 2009 the depreciation earlier provided amounting to K501,889 was reversed and the assets were taken up at their original value of K1,209,612.

According to Para 8 and 9 of *(IFRS-5) Assets Held for Sale and Discontinued Operation*, the management must be committed and have a plan to sell the assets within one year from the date of classification to be qualified for recognition as Assets Held for Sale. The Management had disclosed these as Assets Held for Sale for the last three (3) years. However, I was not provided with such a plan since these were disclosed as Assets Held for Sale.

Under the above circumstances, I was unable to determine the appropriateness of claiming K1,209,612 as Assets Held for Sale in the financial statements as at 31 December, 2009.

## **5. Trade and Other Payables - K3,555,558**

### **5.1 Accrued Expenses - K1,328,085**

The accrued expenses of K1,328,085 included audit fees provided for in 2007 and 2008 at K194,205 and K220,880 respectively. Inclusion of audit fees provided for in prior years resulted in the overstatement of accrued expenses by K415,085 in 2009.

In addition, K121,000 attributed to audit fees for Port Moresby Private Hospital Limited for 2007, 2008 and 2009; Aquarius No. 21 Limited for 2007, 2008 and 2009; Privatization (Garden Hills) Limited for 2007 and Kroton No.2 Limited for 2008 and 2009 was incorrectly included.

Given the above uncertainties, I was unable to determine the accuracy of the accrued expenses of K1,328,085 taken up in the financial statements as at 31 December, 2009.

## **6. Current Employees Provisions - K472,946**

### **6.1 Employees' Provision for Annual Leave - K255,576**

Provision for annual leave totaling K255,576 included in employees' provisions did not include the allowances accrued up to 31 December, 2009. Omission of these allowances results in the understatement of the leave provisions. I was therefore unable to verify the accuracy for annual leave disclosed at K255,576.

## **6.2 Employees' Provision for Gratuity - K217,370**

The financial statements disclosed K217,370 as employees' provision for gratuity. This provision is not accurate because the gratuity accrued from the date of the last gratuity to the year end was not accrued and taken up in the accounts as at 31 December, 2009. Provision for gratuity is therefore understated to the extent of the difference.

In view of the above, I was unable to verify or ascertain the accuracy of the employees' provisions as of 31 December, 2009.

## **7. Non-Current Employees Provisions - K251,392**

The provision for long service leave was disclosed at K251,392. In 2009 four (4) contract officers' employments were terminated and final entitlements were paid out in October, 2009 which included long service leave amounts totaling K61,353. However, only the accrued long service leave up to 2007 totaling K38,678 was adjusted from the long service leave provision instead of K53,794 accrued up to 2008. As a result, the long service leave provision was overstated in the financial statements by K15,116.

I was therefore unable to ascertain the balance of K251,392 as the correct balance of non-current employees' provision as at 31 December, 2009.

## **8. Visa Card Expenses - K175,247**

A total of K175,247 was spent from a sum of K205,604 transferred from the working capital fund into four (4) Visa Debit Card accounts. Out of this, source documents for expenses totaling K87,077 were not made available for my review to determine the nature of the expenses from the visa cards.

Further, there was no drawing policy on use of these debit cards and the acquittals of the expenses.

Consequently, I was unable to determine the accuracy of the expenses incurred through these visa debit cards and debited to various expense accounts which were included in the profit and loss accounts in the financial statements as at 31 December, 2009.

## **9. Employment Cost and Applicability of Salaries and Conditions Monitoring Committee Act, (SCMC) 1998**

In 2009, K4,902,067 was expensed as employment cost. In 2007 through the *Independent Public Business Corporation (amendment) Act, 2007*, amendments were made to the *Independent Public Business Corporation Act, 2002 (as amended)* which specifically excluded the applicability of the *Public Finances (Management) Act, 1995*, *Public Services (Management) Act, 1995* and the *Salaries and Conditions Monitoring Committee Act, 1988*. These amendments affected the Independent Public Business Corporation (IPBC), its Trusts and the State Owned Enterprises (SOE's).



This amendment became applicable to the Corporation and its Trusts and the SOE's in 2007, but at the time of this report no policy was developed by the Corporation in respect of human resource management and its approval by the appropriate authority.

Further, some of the senior management staff remuneration have been determined based on a report provided by a private consultant which was based on private sector marketability of the respective positions, which was then approved by the IPBC Board. All other officers' salary of the Corporation was determined by the management and the approval from Salaries and Conditions Monitoring Committee (SCMC) was not sought.

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

*Subsection 1 and 2 of Section 3 of the SCMC Act, 1988* specifically mentions the applicability of other laws in determining the salaries and conditions of Public Authorities.

As such, the *SCMC Act* overrides all other Acts in respect of the determination of the salaries and conditions of employment for any public body. Therefore, although the *Independent Public Business Corporation (amendment) Act, 2007* specifically excluded the applicability of the *SCMC Act, 1988*, the salaries and conditions of all IPBC officers are still subject to this Act and its determinations.

Consequently, I was unable to determine the validity of K4,902,067 paid as remuneration and other benefits paid to the employees of the Corporation in 2009.

## **QUALIFIED AUDIT OPINION**

In my opinion, except for the effects of the matters referred to in the qualifications paragraphs, the financial statements of the Independent Public Business Corporation comply with generally accepted accounting practice, and give a true and fair view of the Corporation's affairs as at 31 December, 2009 and of the results and cash flows for the year then ended."

## **OTHER MATTER**

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

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

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

Further, I have noted that some Board members of the previous board have raised their concerns against the amendments. I have enquired whether appropriate corporate governance policies were in place before this legislation was enacted. Management responded that corporate governance policies and procedures will be developed in due course. At the time of preparing this report, it has been (3) years since the enactment of the new legislation and no policy and procedures have been developed and provided for my review.

### **11.2.2 Audit Observations Reported to the Ministers**

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December, 2009 was issued on 18 January, 2011. The report contained the following observations:

#### **1. Business Travel Advance**

Internal controls over business travel advances were not adequate as required by the Corporation's Policy of 2004 as noted below:

- All the business travel advances paid up to October, 2009 were directly expensed. Expensing of travel advances in full is not in accordance with the practice of accounting for advances. The portion of advances actually spent on travels, less the unspent, is the correct amount for expensing.
- All the schedules of the overseas travel advances and their acquittals for 2009 were not made available for my review to determine the accuracy of the balance shown as business travel advances.

- During the year non-acquittable allowances were included as business travel advances and acquittable advances were incorrectly expensed as travel expenses without adjustment for the unspent amounts.
- The Corporation's policy requiring acquittal of travel advances within seven days on completion of the travel was not fully complied with as advances totaling K50,444 remained unacquitted for more than two (2) years at 31 December, 2009. Outstanding travel advances of the officers who left the Corporation without acquitting were also included with the travel advances expensed.

I brought this to the attention of the management and it responded that *"there has been an improvement since the end of the financial year 2009 with the acquittal of travel advances. This was subsequent to the issue of the inter-office memo from the Managing Director on the Corporation's requirement of acquittals."*

*We have improved the procedure & control of travel allowances. Acquittable allowances are being recorded in sundry debtors and only taken to profit and loss upon receipt of a duly completed acquittal form with the relevant attachments".*

## **2. Managing Director's Acting Position**

The current Managing Director of Independent Public Business Corporation (IPBC) was appointed to that position on acting basis by the National Executive Council (NEC) from 01 July, 2005 to 30 September, 2005 without approved terms and conditions of employment. Subsequently, the Minister for State Enterprises and Information approved the proposed terms and conditions of Employment for the Acting Managing Director pending the confirmation of his position by the NEC and the terms and conditions by IPBC Board and SCMC.

The Managing Director's acting appointment expired on 30 September, 2005 but he had since occupied the position of Acting Managing Director without Gazette Notification of the re-appointment or confirmation until 07 July, 2008 when NEC finally confirmed the appointment for a period of four years. The acting position from 01 October, 2005 to 06 July, 2008 was not ratified by the NEC.

As such, the position occupied and the remuneration paid for the period which was not ratified by NEC, may not have been consistent with the requirements of the *IPBC Act, 2002 (as amended)*.

I brought this to the attention of management and it responded that *“the Managing Director of IPBC was appointed on 01 July, 2005 pursuant to the National Gazette No.97 dated 30 June, 2005. Per Gazettal notice, his appointment as Acting Managing Director of IPBC was for a period of three (3) months or until a permanent appointment was made. In this respect his position was continued on an acting basis until it was made permanent on 07<sup>th</sup> July, 2008 by a confirmation from the NEC”*.

### **3. Managing Director’s Remuneration**

The Managing Director’s position was confirmed by National Executive Council (NEC) on 07<sup>th</sup> July, 2008 for a period of four (4) years. The Board in its meeting held on 13 March, 2009 approved the Contract of Employment of the Managing Director and recommended the contract to the Salaries and Conditions Monitoring Committee (SCMC) for its final approval of the remuneration package. However, I was not provided the copy of the SCMC approval at the time of this report. The Management advised that *“subsequent to the review done by the HR Consultant firm in 2010, the Managing Director’s remuneration, terms and conditions was endorsed by the IPBC Board. We are waiting SCMC’s approval of the revised terms and conditions in order to execute the Managing Director’s employment contract”*.

### **4. Exemption of Allowances from Income Tax without Internal Revenue Commission’s (IRC’s) approval**

The Managing Director was entitled to various non taxable allowances amounting to K34,150 per annum. These allowances were exempted from income tax under *Section 29(1) of Income Tax Act, 1959*, provided that the Corporation obtained prior approval from the Internal Revenue Commission for the exemption.

However, these allowances were excluded from tax without prior approval from the IRC thereby contravening the requirements of the Act. I advised the management to seek the exemption approval from the IRC and it responded that *“after we receive the SCMC’s endorsement of the remuneration, we will seek the IRC’s view on the matter and if necessary based on the IRC’s advice, apply for a separate tax exemption for the present Managing Director’s allowances”*.

### **5. Dependent’s Leave Fares**

The Corporation had not developed a policy in respect of leave fares paid to dependents of the officers. In 2009, officers on employment contracts claimed leave fares to their dependents including those over eighteen (18) years. I brought this to the attention of the management for their appropriate action and it advised in reference to one particular officer that *“the payment of airfares to the contract officer’s three children over the age of 18 was based on the view that dependent children included all student children who were still dependent on the officer for financial support”*.

### **11.3 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 Corporation for the year ended 31 December, 2010 was completed and the results were being evaluated.

## **11A. AQUARIUS NO. 21 LIMITED (A SUBSIDIARY OF INDEPENDENT PUBLIC BUSINESS CORPORATION)**

### **11A.1 INTRODUCTION**

#### **11A.1.2 Legislation**

Aquarius No. 21 Limited was incorporated under the *Companies Act, 1997*. It was acquired by the Motor Vehicles Insurance (PNG) Trust, now Motor Vehicles Insurance Limited, in 1998.

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

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

### **11A.2 AUDIT OBSERVATIONS**

#### **11A.2.1 Comments on Financial Statements**

My reports to the Shareholders of Aquarius No. 21 Limited in accordance with the provision of the *Companies Act, 1997*, on the financial statements for the years ended 31 December, 2007 to 2010 were issued on 28 July, 2011. These reports contained similar Disclaimers of Opinion, hence, only the 2010 report is reproduced as follows:

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **Opening Balances**

My report on the financial statements of Aquarius No. 21 Limited for the year ended 31 December, 2009 was disclaimed on the basis of limitation of scope with regard to the carrying value of land and uncertainty of going concern. I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the opening balances. Any adjustments that might have been found to be necessary on such opening balances would have had a consequential effect on the financial statements for the year ended 31 December, 2010. Consequently, I am unable to quantify the effects of any material misstatements in the opening balances that might have a bearing on the balances reported in the financial statements for the year ended 31 December, 2010.

### **Carrying Value of Leasehold Land**

The value of leasehold land, carried in the books of Aquarius No. 21 Limited at K950,000, was based on an agreement dated 9<sup>th</sup> April, 2001 between Bank of South Pacific Limited (formerly, PNGBC Limited), Independent Public Business Corporation (IPBC) (formerly, Privatisation Commission) and the Liquidator of Motor Vehicles Insurance Limited. I was not able to place any reliance on the valuation. Further, the land lease (TSL Volume 14 Folio 250) expired in 2000, however, I was not provided with any new state lease document for verification. Therefore, I am unable to conclude whether the Company's claim of ownership is accurate and whether the carrying value of the leasehold land as disclosed of K950,000 at 31 December, 2010 is appropriate.

### **Uncertainty of Going Concern**

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

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

### **DISCLAIMER OF AUDIT 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 Aquarius No. 21 Limited as at 31 December, 2010, and of its financial performance and its cash flows for the year then ended."

### **OTHER MATTER**

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

#### **Annual Returns**

I was not provided with the copy of the annual return filed with Investment Promotion Authority (IPA) by the Company to determine whether it complied with the requirements of the *Companies Act, 1997*.

## **11B. GENERAL BUSINESS TRUST (TRUST UNDER INDEPENDENT PUBLIC BUSINESS CORPORATION)**

### **11B.1 INTRODUCTION**

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

#### **11B.1.1 Objectives of the Trust**

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

### **11B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **11B.2.1 Comments on the Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989, (as amended)* on the financial statements for the year ended 31 December, 2010 was issued on 29 June, 2011. The 2010 report contained an Emphasis of Matter.

#### **“EMPHASIS OF MATTER**

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

- **Investments in PNG Series II and PNG Series III Notes**

On 01 June, 2007, the management of the Trustee, Independent Public Business Corporation (IPBC), invested K15.0 million (AUD\$ 5,920,500) in PNG Series II Notes through BSP Capital Limited in Lehman Brothers, an investment bank providing global financial services. On 21 September, 2007 the management invested another K16.0 million (AUD\$ 6,250,000) in PNG Series III Notes in the same investment bank and again through BSP Capital Limited.



Lehman Brothers filed for bankruptcy in the United States as a result of the global financial crunch. In September, 2008 when Lehman Brothers was declared bankrupt, the investment value of PNG Series II Notes was reduced to AUD\$ 9 for each AUD\$100 Note. Likewise, on 27 April, 2009 the investment value of PNG Series III Notes was also reduced to AUD\$ 70 for each AUD\$ 100 Note.

In 2010, BSP Capital Limited advised that the values of these investments had nil value. However, in June, 2011 BSP Capital then offered a return of K6,156,023 in total to IPBC but without adequate documents for my review.

Both investments were made without proper evaluations on the overseas money markets and without approval and consent of the IPBC Board.

I am concerned that the Trustee had not done proper evaluations and also failed to obtain the Board's approval before these investments were made. I still believe that the funds vested with the Trust and managed by the Trustee (IPBC) are owned by the State even though the amendments made to the *Independent Public Business Corporation Act, 2002 (as amended)* specifically excluded the compliance of *Public Finances (Management) Act, 1995*. Further, in my view, investments in overseas financial/money markets are not the core purpose of the establishment of the Trust.

Therefore, the Board urgently needed to establish an adequate and appropriate corporate governance regime in the management and affairs of the Trust which I believe is quite lacking at present.

- **Exchangeable Bonds-K4,445,325,929**

I draw your attention to the exchangeable bonds liability disclosed under non-current liabilities which amounted to K4,445,325,929. This liability is payable to International Petroleum Investment Company (IPIC), based in Abu Dhabi, which resulted from the raising of AUD\$ 1.681billion (K3.183 billion) in 2009 in exchangeable bonds to fund the State's 19.6% stake in the PNG-LNG project. Oil Search Limited shares were pledged against the exchangeable bonds which will mature in 2014.

However, the value of the Oil Search shares as at 31 December, 2010 was AUD\$ 1.384 billion. An additional amount of AUD\$296,906,594 (K756,449,921) would have been payable by IPBC if the bonds had been redeemed or had been exchanged as per the Bond Deed Poll of the exchangeable bonds agreement at the balance sheet date.

Based on the position as at 31 December, 2010, I view that IPBC should prepare to meet any shortfall in the value of the Oil Search shares in the event IPIC decides to exchange the bonds at any given date prior to the maturity date.

- **Related Party Receivables: Loan to National Petroleum Company of PNG (Kroton) Limited (NPCP) (formerly Kroton No.2 Limited) - K1,249,860,810**

I draw your attention to the related party receivables of K1,297,900,845 which comprises amongst others, a loan of K1,249,860,810 to National Petroleum Company of PNG (Kroton) Limited (NPCP) as disclosed in the financial statements. The loan is made up of K1,229,331,810 which was paid to Exxon Mobil on behalf of NPCP and another amount of K20,529,000 paid towards operational expenses of NPCP in 2010 by IPBC. NPCP holds the PNG Government's 16.57% stake in the PNG LNG project.

The IPBC Board resolved that this amount be considered a loan and shall be paid back once revenue started flowing when the project commences operation. However, a copy of the signed loan agreement was not made available for my review to determine the conditions attached to the loan. As a result, I am unable to determine the status of the loan to NPCP."

## **11C. PNG DAMS LIMITED (A SUBSIDIARY OF INDEPENDENT PUBLIC BUSINESS CORPORATION)**

### **11C.1 INTRODUCTION**

#### **11C.1.1 Legislation**

PNG Dams Limited was incorporated under the *Company's Act, 1997* on 05 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 Papua New Guinea Electricity Commission ("ELCOM"). This was Gazetted through Gazettal Notification No. G114 dated 16 July, 2002. The Company was vested with Independent Public Business Corporation (IPBC) through the *Gazettal Notification No. G125* dated 02 August, 2002.

#### **11C.1.2 The Objective of the Company**

These dams are used as water storage and for the controlled release of water from the storage for the generation of electricity.

### **11C.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December, 2004 to 2010 were completed. I am awaiting the responses to my management letters and signed financial statements from the Company to enable me to issue the audit reports under the *Companies Act, 1997*.

The Company had not submitted its financial statements for the years ended 31 December, 2002 and 2003 for my inspection and audit.

## **11D. PORT MORESBY PRIVATE HOSPITAL LIMITED (A SUBSIDIARY OF INDEPENDENT PUBLIC BUSINESS CORPORATION)**

### **11D.1 INTRODUCTION**

#### **11D.1.1 Legislation**

Port Moresby Private Hospital Limited (formerly Negliw No. 81 Limited) was incorporated under the *Companies Act, 1997* and was acquired by the Motor Vehicles Insurance (PNG) Trust, now Motor Vehicles Insurance Limited, on 30 September, 1994 as a subsidiary. Port Moresby Private Hospital Limited changed its name from Negliw No. 81 Limited in 1996.

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

#### **11D.1.2 Objective of the Company**

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

### **11D.2 AUDIT OBSERVATIONS**

#### **11D.2.1 Comment on Financial Statements**

My reports to the shareholders of Port Moresby Private Hospital Limited in accordance with the provision of the *Companies Act, 1997*, on the financial statements for the year ended 31 December, 2007 was issued on 4 July, 2011 and for 2008 to 2010 were issued on 8 July, 2011 respectively. These reports contained similar Qualified Opinions, hence, only the 2010 report is reproduced as follows:

#### **“BASIS FOR QUALIFIED OPINION**

##### **Uncertainty of Going Concern**

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

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

## QUALIFIED AUDIT OPINION

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

- (a) the financial statements of Port Moresby Private Hospital Limited for the year ended 31 December, 2010:
  - (i) give a true and fair view of the financial position and the results of its operations and cash flows for the year then ended;
  - (ii) the financial statements have been prepared in accordance with the *Companies Act, 1997*, *International Financial Reporting Standards* and other generally accepted accounting practices; and
- (b) except as noted under Other Matter paragraph, proper accounting records have been kept by the company; and
- (c) I have obtained all the information and explanations required.”

## OTHER MATTER

In accordance with the *Audit Act, 1989*, I have a duty to report on any significant matter out of the financial statements, to which the report relates. I draw attention to the following issue;

The lease agreement between Independent Public Business Corporation and Port Moresby Private Specialist Medical Centre expired on 11 February, 2007. However, no new lease agreement was made available for my review to determine the appropriateness of the rental income disclosed in the financial statements.

## **11E. PRIVATISATION (GARDEN HILLS) LIMITED (A SUBSIDIARY OF INDEPENDENT PUBLIC BUSINESS CORPORATION)**

### **11E.1 INTRODUCTION**

#### **11E.1.1 Legislation**

Privatisation (Garden Hills) Limited was incorporated as a 100% owned company under the *Company's Act, 1997* by the Privatisation Commission on 21 March, 2002 to own the residential vacant state leases which were transferred by the then Papua New Guinea Banking Corporation Limited (PNGBC) prior to its amalgamation with Bank of South Pacific Limited (BSP) as part of the non-banking assets to be transferred from the PNGBC to the Privatisation Commission.

On 20 June, 2002, the Independent Public Business Corporation was established under the *Independent Public Business Corporation of Papua New Guinea Act, 2002* and took over the assets and liabilities of the Privatisation Commission from the succession date of 30 June, 2002.

### **11E.2 AUDIT OBSERVATIONS**

#### **11E.2.1 Comments on Financial Statements**

My report to the Shareholders of Privatisation (Garden Hills) Limited in accordance with the provisions of the *Companies Act, 1997*, on the financial statements for the year ended 31 December, 2007 was issued on 21 July, 2011. This report contained a Disclaimer of Opinion.

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **Uncertainty of Going Concern**

The attached financial statements are prepared on a going concern basis, the validity of which was dependent upon the continued existence of the Company's properties of fifty two (52) vacant state leases disclosed in Note 1(f). However, all the vacant state leases were sold during 2005, 2006 and 2007 and a sum of K1,101,295 had been realised.

The statements do not include any adjustments that might arise resulting from the sale of the properties during the year then ended. To ensure that the going concern basis is appropriate, adjustments would need to be made in relation to the sales done during the reporting period and extinguishing the related liabilities other than those in the normal course of business. The resulting amounts may differ from those stated in the financial statements. As a consequence, it was not possible for me to quantify the extent of the adjustments required.

### **Non-Compliance with International Accounting Standards**

The financial statements disclosed KNil as operational and other income for the year ended. However, during the year the Company had sold the remaining state leases. The related income and expenses were not disclosed in the Profit and Loss account. The sales values and its costs were instead taken up in the books of General Business Trust. The non-inclusion of these transactions from the Company's financial statements contravenes the *International Accounting Standards-1(IAS-1) (Presentation of Financial Statements)*.

As a result, I was unable to ensure the accuracy of net profit or loss stated as KNil in the financial statements for the year ended 31 December, 2007.

### **DISCLAIMER OF AUDIT 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 Privatisation (Garden Hills) Limited as at 31 December, 2007, and of its financial performance and its cash flows for the year then ended.

### **OTHER MATTER**

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

- The financial statements of Privatisation (Garden Hills) Limited have been signed by only one Director and not by two Directors of the Company as required by the *Companies Act, 1997*. To that extent the financial statements have not been drawn up in accordance with the *Companies Act, 1997*."

### **11E.3 STATUS OF FINANCIAL STATEMENTS**

The Company was deregistered in 2008. That being the case, this will be my last report to Parliament on the Company.

## **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 Papua New Guinea.

### **12.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **12.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the financial statements of the Corporation for the year ended 31 December, 2008 was issued on 18 November, 2010. The report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Employee Provisions**

Employee provisions disclosed in the financial statements was K271,879. My examination revealed numerous variances in calculating Long Service Leave provisions. In addition, there were no provisions for staff gratuity for the year ended 31 December, 2008. As a result, I was unable to satisfy myself as to the accuracy and correctness of the employee provisions of K271,879 stated at year end.

#### **QUALIFIED AUDIT OPINION**

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

- a) the financial statements are based on proper accounts and records; and
- b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Corporation for the year ended 31 December, 2008 and the results of its financial operations and cash flows for the year then ended.”



### 12.2.2 Audit Observations reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December, 2008 was issued on 18 November, 2010. The report contained the following comments:

#### 1. Minister's Approval of the Land Sale

As reported in my previous report, most of the vacant lands in Malahang Industrial Centre and Ulaveo Industrial Centre were sold during 2006 and 2007 without Ministerial approvals. I brought this matter again to the attention of management and it responded as follows:

*"The former acting Managing Director stated that approval was given and he will provide the necessary information as soon as he finds it."*

#### 2. MIC Contract for Renovation

The Corporation awarded renovation contract for two (2) staff houses for a total cost of K74,000 (K37,000 each unit). However, due to cost escalation only one unit was renovated at a cost of K53,990. As a result, the second unit was never been renovated at all. I requested explanation from the management and it responded as follows:

*"The work was abandoned because the contractor came with the argument that the initial cost had increased due to rising costs and prices and demanded that payments be done in full before any further work was done. This was rejected by the Management and the work was abandon."*

#### 3. IRIC Nursery Building Construction

Construction Cost of Nursery building at Ulaveo exceeded by K418,000 against the agreed contract agreement. I brought this matter to the management and it responded as follows:

*"The additional work was due to the variation of the contract which resulted in the additional costs."*

#### 4. Budget against Actual

The Corporation committed a significant overspending of expenditure without the Board's approval. I advised the management to always follow the approved budget. The management responded that most of this overpayment related to travel & subsistence, utilities, materials, transport and fuel etc. Hence, in many cases, most of these payments occur as a result of the rising cost of goods and services; something which is beyond their control and which the Board was informed of during the quarterly board meetings by the management.

## **5. Other Internal Control Weaknesses**

Other weaknesses noted were:

- Board meeting minutes were not signed by the Chairman in order to confirm the minutes to be true and correct;
- Lack of control on staff advances;
- Lack of adequate control procedures in place over payments made directly to suppliers by open cheque;
- Non maintenance of travel advance/acquittal register;
- Non maintenance of staff ledger and employees history cards.

*I drew management's attention to these weaknesses and I was advised that these matters were now being looked into and addressed.*

## **12.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the financial statements of the Corporation for the year ended 31 December, 2009 was substantially completed and the results were being evaluated. The financial statements for the year ended 31 December, 2010 had not been submitted for my inspection and audit.

## **13. INVESTMENT PROMOTION AUTHORITY**

### **13.1 INTRODUCTION**

#### **13.1.1 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*.

#### **13.1.2 Functions of the Authority**

The principal functions of the Authority are: to provide information to investors in the country and overseas; to facilitate the introduction of citizens and foreign investors to each other and to activities and investments of mutual benefits; to provide a system of certification of foreign enterprises; to advise the Minister on policy issues which relate to the Act; and to maintain a register of foreign investment opportunities.

### **13.2 AUDIT OBSERVATIONS**

#### **13.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the Authority's financial statements for the years ended 31 December, 2009 and 2010 were issued on 18 October, 2010 and 27 June, 2011 respectively. The 2009 report contained an Unqualified Audit Opinion while the 2010 report contained a Qualified Audit Opinion as reported below:

#### **“BASIS FOR QUALIFIED AUDIT OPINION**

##### **1. Prepayments and Debtors – K303,752**

The Authority disclosed prepayments in its financial statements as K303,752. My review of this account revealed that proper reconciliations, ledgers and supporting documents were not maintained to substantiate this balance. As such, I was unable to verify the accuracy and completeness of this balance.

##### **2. Prior Period Adjustment – K563,215**

My review of the Prior Period Adjustment account revealed that various debit entries of K116,818 and credit entries of K190,057 were passed. These entries were narrated as unreconciled balances. I was not provided with valid explanations with supporting documents for these entries. As such, I was unable to verify the accuracy and completeness of this balance.

## **QUALIFIED AUDIT OPINION**

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

- (a) the financial statements are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Authority as at 31 December, 2010 and the results of its financial operations for the year then ended.”

## **14. KOKONAS INDASTRI KOPORESEN (FORMERLY COPRA MARKETING BOARD OF PAPUA NEW GUINEA)**

### **14.1 INTRODUCTION**

#### **14.1.1 Legislation**

The National Executive Council (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 Papua New Guinea and required KIK to only regulate the copra price in Papua New Guinea.

The *Kokonas Inastri Koporesen Act, 2002* subsequently established Papua New Guinea Coconut Extension Fund, Papua New Guinea Coconut Industry Fund and Papua New Guinea Coconut Research Fund. Comments in relation to these Funds are contained in paragraphs 14A, 14B and 14C respectively, of this Report (Part IV).

#### **14.1.2 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 Papua New Guinea, and to administer the Papua New Guinea Coconut Industry Fund, the Papua New Guinea Coconut Research Fund and the Papua New Guinea Coconut Extension Fund.

### **14.2 AUDIT OBSERVATIONS**

#### **14.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Koporesen for the years ended 31 December, 2008 and 2009 were issued on 18 November, 2010 and 27 June, 2011 respectively. These reports did not contain any qualification.

### **14.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, despite various reminders, the Koporesen had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.

## **14A. PAPUA NEW GUINEA COCONUT EXTENSION FUND**

### **14A.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.

#### **14A.1.1 Objective of the Fund**

The objective of the Fund is to engage in extension services and related programmes 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 Kokonas Indastri Koporesen.

### **14A.2 AUDIT OBSERVATIONS**

#### **14A.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the years ended 31 December, 2008 and 2009 were issued on 18 November, 2010 and 27 June, 2011 respectively. These reports contained similar Qualified Audit Opinion, hence only the 2009 report was reproduced as follows:

#### **“BASIS FOR QUALIFIED OPINION**

##### **Trade Debtors**

I was unable to satisfy myself as to the validity and recoverability of the trade debtors balance of K113,890 as stated in the financial statements as over 73 percent of this amount remained outstanding for more than 90 days.

#### **QUALIFIED AUDIT OPINION**

In my opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion paragraph:

- (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 Fund as at 31 December, 2009 and the results of its financial operations for the year ended on that date.”

**OTHER MATTERS**

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

**Payment Out of Research Fund**

Section 37 of *Kokonas Indastri Koporesen Act, 2002* states that no money shall be paid out of the Research Fund except for the purpose of research under section 4(1)(e). However, I noted that payments were made for legal fees and PNGCCI board meetings, stipends, airfares, salaries and wages shortfall, furnishing for CCIL CEO's residence and related expenses. Although these payments were made for the benefit of coconut research projects, the payments were made in violation of the above Act.

**14A.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Extension Fund had not submitted the financial statements for the year ended 31 December, 2010 for my inspection and audit.

## **14B. PAPUA NEW GUINEA COCONUT INDUSTRY FUND**

### **14B.1 INTRODUCTION**

#### **14B.1.1 Legislation**

The *Kokonas Indastri Koporesen Act, 2002*, provided for the establishment of the Papua New Guinea Coconut Industry Fund for the purpose of receiving levies and fees and for making bounty payments in accordance with the terms of the Act.

#### **14B.1.2 Objective of the Fund**

The objective of the Fund is to stabilize as far as possible, the copra prices payable to copra producers by collecting levies in times of favourable market prices and by making bounty payments in times of depressed prices, and also establishing credit facility for producer and investment promotion within the industry.

The Fund is administered by the Kokonas Indastri Koporesen.

### **14B.2 AUDIT OBSERVATIONS**

#### **14B.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the years ended 31 December, 2008 and 2009 were issued on 18 November, 2010 and 27 June, 2011 respectively. These reports contained similar Disclaimer of Opinions, hence only the 2009 report is reproduced as follows:

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **Non maintenance of Proper Books of Accounts**

The Fund did not maintain proper books of accounts and records and general ledger to produce a trial balance for the preparation of the financial statements for many years. Due to the above limitation on the scope of my audit, I was unable to conduct the necessary audit procedures and the necessary examination to enable me to verify the accuracy of the account balances.

##### **NEC Decision No. 215/2009 Write-off of the Outstanding Copra Industry Loan of K8.5 million**

During the year, the Assets, Liabilities and the Accumulated Funds were written off due to the NEC Decision 215/2009 to write off the Outstanding Copra Industry Loan of K8.5 million under the Commodity Guaranteed Price Scheme. Included in the write-off were Cash at Bank K15,649, Trade Debtors K217,426 and Trade Creditors K21,343. I was not provided any documentary evidence to support the approval of write offs. As a result, I was unable to certify that the write-off was properly approved by the Board.



**DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of PNG Coconut Industry Fund for the year ended 31 December, 2009.”

**14B.3 STATUS OF FINANCIAL STATEMENTS**

The National Executive Council (NEC) had approved the write off of Copra Industry Loan by its Decision No. 215/2009 and as a consequence, the Fund had written-off all its assets and extinguished its liabilities. That being the case, the 2009 audit would be my last report to Parliament.

## **14C. PAPUA NEW GUINEA COCONUT RESEARCH FUND**

### **14C.1 INTRODUCTION**

#### **14C.1.1 Legislation and Objective of the Fund**

The Papua New Guinea Coconut Research Fund was established by the *Kokonas Indastri Koporesen Act, 2002* following the repeal of the *Copra Marketing Board (Amendment) Act, 1986*, and the cessation of the Papua New Guinea Copra Research Fund. The Kokonas Indastri Koporesen deducts a copra research CESS of K4 per tonne of copra purchased from producers and pays it to the Research Fund. The Research Fund in turn, pays this CESS to the Cocoa Coconut Institute of Papua New Guinea.

### **14C.2 AUDIT OBSERVATIONS**

#### **14C.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the years ended 31 December, 2008 and 2009 were issued on 18 November, 2010 and 27 June, 2011 respectively. These reports contained similar Qualified Audit Opinion, hence only 2009 was reproduced as follows:

#### **“BASIS FOR QUALIFIED OPINION**

##### **Trade Debtors**

I was unable to satisfy myself as to the validity and recoverability of the trade debtors balance of K113,890 as stated in the financial statements as over 73 percent of this amount remained outstanding for more than 90 days.

#### **QUALIFIED OPINION**

In my opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion paragraph:

- (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 Fund as at 31 December, 2009 and the results of its financial operations for the year ended on that date.

#### **OTHER MATTERS**

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

**Payment Out of Research Fund**

Section 37 of *Kokonas Industri Koporesen Act, 2002* states that no money shall be paid out of the Research Fund except for the purpose of research under section 4(1)(c). However, I noted that payments were made for legal fees and PNGCCI board meetings, stipends, airfares, salaries and wages shortfall, furnishing for CCIL CEO's residence and related expenses. Although these payments were made for the benefit of coconut research projects, the payments were made in violation of the above Act."

**14C.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Research Fund had not submitted the financial statements for the year ended 31 December, 2010 for my inspection and audit.

## **15. LEGAL TRAINING INSTITUTE**

### **15.1 INTRODUCTION**

#### **15.1.1 Legislation**

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

#### **15.1.2 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*.

### **15.2 AUDIT OBSERVATIONS**

#### **15.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements of the Institute for the year ended 31 December, 2009 was issued on 11 March, 2011. The report did not contain any qualification.

### **15.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the year ended 31 December, 2010 was completed and the results were being evaluated.

## **16. MINERAL RESOURCES AUTHORITY**

### **16.1 INTRODUCTION**

#### **16.1.1 Legislation**

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

#### **16.1.2 Objectives of the Authority**

The objective of the Authority is to be able 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.

#### **16.1.3 Functions of the Authority**

The functions of the Authority are described as follows:

- (a) to advise the Minister on matters relating to mining and the management, exploitation and development of Papua New Guinea's mineral resources;
- (b) to promote the orderly exploration for the development of the country's mineral resources;
- (c) 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 Papua New Guinea's mineral resources;
- (d) to negotiate mining development contracts under the *Mining Act, 1992* as agent for the State;
- (e) 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 Papua New Guinea's mineral resources;
- (f) 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, 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, or any other Act the administration of which is the responsibility of the Authority from time to time;

- (g) on behalf of the State, to receive and collect from persons to whom a tenement has been granted under the *Mining Act, 1992* the security for compliance with the person's obligations under the *Mining Act, 1992* required to be lodged with the Registrar, and to hold and such security received or collected;
- (h) on behalf of the State, to administer and be responsible for the administration of any public investment programme relating to mining;
- (i) to conduct systematic geoscientific investigations into the distribution and characteristics of Papua New Guinea's mineral and geological resources, located on, within or beneath the country's land mass, soil, subsoil and the sea-bed;
- (j) to provide small scale mining and hydrogeological survey data services, and occupational health and safety community awareness programs;
- (k) to collect, analyse, store, archive, disseminate and publish (in appropriate maps and publications) on behalf of the State geoscientific information about Papua New Guinea's mineral and geological resources;
- (l) to carry out such other functions as are given to the Authority by this Act or by any other law; and
- (m) generally to do such supplementary, incidental, or consequential acts and things as are necessary or convenient for the Authority to carry out its functions.

## **16.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **16.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act, 1989 (as amended)* on the financial statements of the Authority for the year ended 31 December, 2008 was issued on 12 August, 2010. The report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED AUDIT OPINION**

##### **Production Levy**

Production levy was recognized as an income by the Authority in the period in which they were received with a computation done by the respective operating/producing mines. The Authority did not have any mechanism to ensure the accuracy of the production levy of K17,459,194 computed during the year. Therefore, I was unable to verify the accuracy of the production levy income recognized in the financial statements.

### **Tenement Rent Income**

The Authority had recorded tenement rent income of K7,246,005 and K3,574,048 as deferred income for the year ended 31 December, 2008. As of the date of my audit report, I was unable to obtain source data from tenement branch for a full listing of minerals license holders with their base tenement rent amounts to ensure that tenement rents accounted in the books were complete and accurate. As a result, I was unable to determine the completeness of deferred income and tenement rental income earned during the year due to non availability of information.

### **Group Tax**

The Authority was not fully compliant with the *Income Tax Act* requirement in relation to non deduction of tax on directors' fees and consultancy fee for overseas consultant. As a result, I was unable to determine the quantum of taxes payable by the Authority on account of above items.

### **Recoverability of Goods and Services Tax inputs**

The Authority did not render any taxable activities which were defined by the *Goods and Services Tax (GST) Act, 2003*. According to the Act, input tax in relation to the acquisition of goods and services by a registered person for the principal purpose of making taxable activities can claim only in relation to the taxable activities. Due to incorrect reconciliations I was unable to extent my audit tests to verify the recoverable GST amount of K405,255 as stated in the financial statements.

### **Assets of the Mining Department transferred to MRA**

The Authority was not in compliance with *Section 54* of the *Mineral Resources Act, 2005* that related to transfer of assets from Department of Mining to Mineral Resources Authority. The Authority did not take the ownership of the assets described in Schedule II of the Act except for some motor vehicles, computers and land.

The Authority uses maps and other various publications which were produced by the Department of Mining. Although the Authority earns income by making use of those data, the relevant cost of sales and cost of inventory were not been capitalized to denote the value of data.

### **QUALIFIED AUDIT OPINION**

In my opinion, except for the effects of such adjustments to the financial statements that might have been found to be necessary had I been able to obtain sufficient and appropriate evidence concerning the matters referred to above:

- a) the financial statements of Mineral Resources Authority;
  - (i) comply with generally accepted accounting practice; and

- (ii) give a true and fair view of the financial position of the Authority as at 31 December, 2008 and its financial performance and its cash flows for the year then ended; and
- (b) proper accounting records had been kept by the Authority as far as it appears from my examination of those records.”

### 16.2.2 Audit Observations reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Authority for the year ended 31 December, 2008 was issued on 12 August, 2010. The report contained the following comments:

#### 1. Undue delay in Preparing the Statutory Financial Statements

I noted that there were undue delays in preparing the statutory financial statements. The *Mineral Resources Authority (MRA) Act, 2005* requires that the financial statements are to be prepared, audited and presented to the Minister within five months after the balance sheet date.

The Authority experienced long delays in implementing the new accounting system as a result of accounting software system crash which in turn caused delays in obtaining timely information. Due to lack of accounting staff, further delays were experienced in obtaining audit evidence in a timely manner.

I recommended that management comply with the requirements of the *Mineral Resources Authority Act, 2005* and *Public Finance (Management) Act*, and present audited financial statements to the Minister responsible within five months of year end. The management noted and accepted the observation on the non compliance with the requirements of the *Mineral Resources Authority Act, 2005* and *Public Finances (Management) Act* and ensured that this does not recur in the future.

#### 2. Develop a formal Disaster Recovery Plan

Management did not have a comprehensive disaster recovery plan in place to ensure that the organization will continue its operations in the event of a disaster. The Authority did not have processes to ensure that the systems were backed up, and that tapes were stored within the premises. This was only one small step in an overall recovery planning activity. Currently, there was no formally documented plan that would co-ordinate the back up/recovery activities.

Lack of a comprehensive disaster recovery plan exposes the Authority to loss of data in the event of a disaster. I recommended the Authority that a wide disaster recovery plan be developed and this plan shall serve as a procedural guideline for a smooth and orderly recovery of data and to facilitate a continuity of operations.



The management responded as follows:

*“The existence of this situation and lack of disaster recovery plan is noted and agreed. The management in its efforts to address this situation, has taken initiative well before the matter has been raised here, taken the matter on board by identifying it as one of the major projects under the MRA 2010 Work Plan to be undertaken by the Information Technology Branch within the Corporate Services Division.”*

### **3. Implementation of a New Accounting System**

During the year, MRA implemented a new accounting system to replace the former accounting system. However, no proper preliminary analysis was done to assess whether system is capable to deliver MRA’s requirements. I encountered various system programming errors which led to discrepancies in the general ledger and final accounts. Further improvements to the system were still needed. Lack of attention to improvements into the current system may affect the MRA’s operations.

I recommended MRA to periodically assess to what extent the new system supports MRA’s control and information needs and to implement new or changed modules where needed, such as:

- Complete use of the fixed assets management module;
- Improvement of automated control based on MRA’s control structure and individual authorization levels;
- Increased use of the possibilities for (standard) report generation for management reporting and external reporting;
- Improvement of use by additional user training.

The management responded to my observation as follows:

*“The management acknowledges and appreciates the four items recommended as necessary to ensure an effective and reliable system to meet the current and future/changing needs of MRA in terms of financial reporting both for internal as well as external including statutory reporting requirements. Ongoing review and revamping of the system has been brought to the attention of the system developers.”*

#### 4. Tenement Rents

According to the Mining Act, the tenement license holders should pay a license fee to MRA as tenement rents. The license was issued for a period of two years and license holders had options to pay total license fee at once or two annual installments in advance. As part of the audit procedures with regard to the accuracy and completeness of revenue I had evaluated internal controls over the tenement rents. I observed that Corporate Services Division of MRA did not make periodic reconciliations between the tenements data with the Regulatory Services Division where the database was maintained.

Corporate Services Division should maintain a proper tenement rent database which allows it to obtain tenement rent details at any given time. I pointed out this issue in my previous year audit and during this year I noted that only few steps were taken to complete this process.

I recommended MRA to maintain proper records of tenement rents and periodical reconciliations with the database Regulatory Services Division. Further, I recommended to the management to review the deferred income calculations properly to avoid the incorrect calculations.

The management since responded as follows:

*“The Management has adopted the accrual basis of accounting and will ensure all tenement income are recognized when earned as well allocating/treating as unearned income, those relating to the future periods consistent with IAS 18. The Management notes the audit comment and in doing so acknowledge the existence of this weakness in not keeping complete and accurate record of vital information. However, we will ensure the Tenements is provided a separate receipt book and at the same time they will be instructed and/or guided on the correct accounting treatment between Income, Deferred Income as per IAS 18 and treatment of Bond.”*

#### 5. Lack of Proper Bank Reconciliation Process

I observed that MRA had not performed bank reconciliation on a monthly basis. I also noted unreconciled variances in some of the reconciliations provided for my review. The reconciliations were not reviewed and approved by an authorized officer. Bank reconciliation is a key control tool and helps detect any mistakes made by the bank or in recording of the bank transactions in the general ledger.

In the absence of proper reconciliation procedures, it was not possible to verify the correctness of entries processed by the bank to ensure that all entries were picked up in the general ledger and reconciled correctly.

Management since responded to my observation as follows:

*“In general, the audit observation and recommendation is noted and agreed. There were delays in Monthly Bank Reconciliations. The existence of such was partly to do with the system teething/developmental problems coupled with staff capacity at Supervisory level. The Manager – Finance & Accounting or the Executive Manager – Corporate Services Division will ensure and be responsible for signing this from here on so that the Bank Reconciliation remains a true and correct record.”*

**6. Adherence to SCMC Terms and Conditions for Salaries (Originally raised in 2007)**

I noted certain deviations from the terms and conditions of *Salaries and Conditions Monitoring Committee (SCMC)* by Mineral Resources Authority with regard to the employees’ salary scales. This was emphasised to the management in my prior year audit. According to the management there was a proper approval from SCMC. However, I was not provided with any correspondences for SCMC approval.

I recommended the management to provide necessary information to enable me to verify compliance with the SCMC requirements.

The Authority responded to my concern as follows:

*“The Management has been consistent with SCMC determined rates. On the additional housing allowances paid in 2009, the SCMC being quite slow and ineffective as it is only responded and approved this allowance on 6<sup>th</sup> October, 2009, although the submission was done on 21<sup>st</sup> October, 2008.”*

**7. Production Levy**

Production levy was recognized as an income in the period in which they were received with a computation done by the respective mining produces. MRA did not have any mechanism to ensure the accuracy of the production levy during the year. The impact was that production levy may be understated in the books.

I recommended management to obtain corroborative evidences to ensure the accuracy of the assessable income of mining companies to determine the production levy.

The Authority responded as follows:

*“Management fully appreciates and acknowledges the comment by the Auditors as is to MRA’s advantage that appropriate mechanisms are set in place to ensure MRA is being paid the right dues.”*

*Mineral Resources Authority Management needs to address and improve on the process of collating data and correctly determining the production statistics from each operating/producing mines to serve as the basis of cross checking the production levy paid to it by the Mining companies.”*

#### **8. Internal Audit Function (Originally raised in 2007)**

I noted that MRA did not have an internal audit division although there was a requirement in the Section 39(5) of the *Mineral Resources Authority Act, 2005*. According to the above Act, MRA should appoint a qualified person as an internal auditor, who should provide written audit reports on quarterly basis to the Board, Minister and Departmental Head for treasury matters.

I recommended management to establish an internal audit division to ensure that MRA is in line with the terms of the Mineral Resources Authority Act.

The management responded as follows:

*“There is a position created for an internal auditor reporting to the Managing Director. In 2008, Management embarked on recruiting an Internal Auditor to fill that position as well as to establish the internal audit function within MRA. In moving forward MRA had considered and outsourced the function to a small National Accounting firm to provide this support/service for a period of twelve (12) months after which MRA will revert to recruiting and filling the positions of Internal Auditor.”*

### **16.3 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, 2009 was still in progress. However, the Authority had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.

## **17. MOTU-KOITABU COUNCIL AND ITS SUBSIDIARY**

### **17.1 INTRODUCTION**

#### **17.1.1 Legislation**

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

#### **17.1.2 Functions of the Interim Assembly**

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

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

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

The Interim Assembly had a subsidiary Company, Tabudubu Limited, which operated as the business arm of the Interim Assembly. The shares in the Company were transferred to the Commission as required by the *National Capital District Commission Act, 1990*, and are held in trust for the Motu-Koitabuan people. Comments in relation to this subsidiary are contained in paragraph 17A of this Report (Part IV).

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

## **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 Council for the years ended 31 December, 2003 to 31 December, 2006 were still in progress due to the inability of the Council to provide the necessary information for the audits to be finalised.

My reports on the entities for the years ended 31 December, 2007 to 31 December, 2010 will be reported under Part III of my Annual Report.

## **17A. TABUDUBU LIMITED (A SUBSIDIARY OF MOTU-KOITABU COUNCIL)**

### **17A.1 INTRODUCTION**

#### **17A.1.1 Legislation**

Tabudubu Limited was incorporated under the *Companies Act, 1997*. It is a subsidiary of Motu-Koitabu Council.

Motu-Koitabu Interim Assembly, which held 99 percent of the shares in Tabudubu Limited, was established under the *National Capital District Government (Preparatory Arrangement) Act (Chapter 392)*. This Act was repealed by the *National Capital District Commission Act, 1990*, which became effective on 5 November, 1990.

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

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

#### **17A.1.2 Functions**

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

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

### **17A.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, 2003 to 31 December, 2006 for my inspection and audit despite several reminders to the Company.

My reports on the entity for the years ended 31 December, 2007 to 31 December, 2010 will be reported under Part III of my Annual Report.

## **18. NATIONAL AGRICULTURE QUARANTINE AND INSPECTION AUTHORITY**

### **18.1 INTRODUCTION**

#### **18.1.1 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.

#### **18.1.2 Objective of the Authority**

The main objective 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; and any products derived from animals, fish and plants; and to prevent pests or diseases from entering in or going out of Papua New Guinea.

#### **18.1.3 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;
- to 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;
- to 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;
- to 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;
- to 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;



- to 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;
- to 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;
- to 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;
- to 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;
- to 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;
- to 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;
- to liaise with other countries, international agencies and other organizations in developing policies, strategies and agreements relating to quarantine, quality and inspection matters in respect of animals and plants;
- to provide quarantine and inspection information and services to individuals, agencies and other organizations within the country and overseas in respect of animals and plants;
- to levy fees and charges for any of the purposes of this Act and any regulations made thereunder;
- to 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
- to 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.

## 18.2 AUDIT OBSERVATIONS

### 18.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2009 was issued on 4 April, 2011 and contained a Qualified Audit Opinion:

#### **“BASIS FOR QUALIFIED AUDIT OPINION**

##### **Cash At Bank and Control Environment**

The Authority maintains four (4) bank accounts amounting to K5,391,384 as at 31 December, 2009. A total of K1,370,882 presented cheques in the bank statements were treated as unrepresented in the Authority's bank reconciliation statements. The amount represents the manual cheques that were raised and paid to various suppliers at various locations, and these were not updated in the cash books. The Authority, subsequent to audit, has adjusted this amount to account for the unrepresented cheques. My examination revealed that controls surrounding the preparation, checking and approval of bank reconciliations were weak. The Authority needs to ensure that established controls are in place and effective by providing adequate training to its staff and by monitoring the controls on a regular basis.

##### **Fixed Assets – K6,041,469**

The carrying value of fixed assets of the Authority as at 31 December, 2009 was K6,041,469. The accounts and records of the fixed assets have not been properly maintained by the Authority. The Authority provided three different sets of figures for its fixed assets: Note No. 6 to the financial statements was stated as K6,041,469, Accpac report figure showed as K5,459,006 and excel-spreadsheet stated K5,245,300. Further, the fixed assets register did not capture detail description and the location of various assets under the custody and control of the Authority including additions amounting to K820,212. The depreciation charge for the period amounted to K526,904, however, rates were erroneously applied to arrive at the depreciation charge for the year. Consequently, I was unable to comment on the accuracy, completeness and the measurement of the account balance at the year end.

##### **Interest Bearing Deposit - K12,849,951**

Note (4) to the financial statements disclosed Interest Bearing Deposit as K12,849,951. I noted that the Authority had not properly maintained the accounts and records of its investment. There were no proper schedules or reconciliations nor register maintained for interest received during the year. The management had provided some documentation but not sufficient to satisfy myself as to the accuracy and completeness of the total investments including accuracy of interest received during the year. As a result, I was unable to comment on the interest income and the investment stated in the financial statements at the year end.

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

The Authority had breached the provisions of the *Public Finances (Management) Act, (as amended), 1995* by not submitting the financial statements on a timely basis to complete the audit within the time frame stipulated by the Act. In addition, the Authority failed to observe the General Orders in respect of the following:

- Payments made without proper invoices totaled K103,337;
- Non acquittals of travel expenses totaling K102,267; and
- Expenses without lease agreements amounting to K25,861.

### **QUALIFIED AUDIT 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 Authority are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Authority as at 31 December, 2009, and the results of its financial operations and cash flows for the year then ended.”

### **18.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Authority for the year ended 31 December, 2010 had not been submitted for my inspection and audit.

## **19. NATIONAL AGRICULTURAL RESEARCH INSTITUTE**

### **19.1 INTRODUCTION**

#### **19.1.1 Legislation**

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

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

#### **19.1.2 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 Papua New Guinea.

#### **19.1.3 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;
- to promote and facilitate applied and adaptive research in food crops, livestock, alternative cash crops, and resource management;
- to 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;
- to 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;
- to maintain and conserve the diversity of genetic resources for food and agriculture, act as custodian for these resources and promote the effective utilization of these resources in the country;

- to update and maintain the national inventory on soil resources; and to develop, promote and maintain sustainable practices in agriculture;
- to 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;
- to perform such other functions as are given to it under this Act or any other law;
- to formulate national agricultural research policies, define sectoral research priorities and allocate funds and advise the Minister and the National Executive Council on these matters; 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.

## **19.2 AUDIT OBSERVATIONS**

### **19.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the financial statements for the year ended 31 December, 2010 was issued on 11 May, 2011. The report did not contain any qualification.

## **20. NATIONAL AIDS COUNCIL**

### **20.1 INTRODUCTION**

#### **20.1.1 Legislation**

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

#### **20.1.2 The 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; to 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.

#### **20.1.3 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:

- (a) to make recommendations and provide guidelines on the related issues to the NEC, PGs and LLGs;
- (b) to foster, co-ordinate and monitor HIV/AIDS prevention, control and management strategies and programme;
- (c) to accept, administer and account for the funds and other resources allocated to it;
- (d) to consult and co-ordinate with the appropriate state agencies and other persons and organisations on matters related to its activities;
- (e) to initiate, encourage, facilitate and monitor preparation and dissemination of information, counselling, care and legal services, research on or in relation to HIV/AIDS; and
- (f) to perform such other functions given to it under *Section 5* of this Act or any other law.

## **20.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **20.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements for the years ended 31 December, 2004, 2005, 2006 and 2007 were issued on 22 June, 2011 respectively.

These reports contained similar Disclaimer of Opinions, hence, only the 2007 report is produced:

#### **“BASIS FOR DISCLAIMER OF AUDIT OPINION**

##### **1. Departure from Accounting Policies**

In *Note 2* to the financial statements, I noted that the accounting policy was altered from the former Accrual Basis of Accounting to the Cash Basis of Accounting Method. This policy change was not approved by the Governing Council for the year ending 31 December, 2007. In the absence of evidence authorizing the accounting policy change, I was unable to state whether the change was proper and the accounting treatments were correct and fair.

##### **2. Opening Balances**

My report for the year ended 31 December, 2006 was a disclaimer of opinion due to qualifications for limitation of scope arising from the compilation of the financial statements from improper, unreliable and incomplete accounting records. The fixed assets balance was also qualified. I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and the accuracy of the opening balances for the year ended 31 December, 2007.

##### **3. Statutory Accounts and Records**

The compilation of the financial statements for the year ended 31 December, 2007 was from improper, unreliable and incomplete accounting records. There were no proper filing and source documents in respect of a number of transactions that I reviewed. Further, there were no formalized policies, internal systems and procedural guidelines or manuals in operation, to vouch the standard procedures involved in the accounting, administration and other operational areas that were undertaken. Consequently, I am unable to satisfy myself as to the validity and the correctness of the financial statements for the year ended 31 December, 2007.

#### **4. Fixed Assets**

Fixed Assets additions were stated as K512,452 in *Note 8* to the financial statements, however, the Council did not maintain a proper Fixed Asset Register to record all its asset purchases, nor a stock-take conducted annually to verify their existence and values.

The Asset Register furnished for my review was incomplete and had inaccurate listing of assets without any depreciation schedule and proper classification of all assets, including costs. The schedule of assets in the financial statements was prepared without any basis as it did not properly reflect the real value of the fixed assets as at 31 December, 2007. Consequently, I am unable to confirm the validity and correctness of additions of K512,452 as stated in *Note 8* to the financial statement and the total value of fixed assets totaling K927,841 for the year ended 31 December, 2007.

#### **5. External Confirmations**

Grants and other assistance received were stated as K1,385,956 in the financial statements. However, the supporting schedules and confirmation documents such as telegraph transfer or transfer advices from donors were not provided for my review and verification. As a result, I am not able to confirm and verify the correctness and the validity of the account balance at year end.

#### **6. Trust Accounts**

In *Note 4* to the financial statements, the Trust Accounts Bank account balance was stated as K1,459,698. However, I was not provided the cash books, bank reconciliations statements, the general ledger and other documentation in relation to the proper accounting and administration of this account. In the absence of this documentation, I am unable to state whether the account balance as presented is a true and correct account balance.

#### **7. Operating Bank Account**

In *Note 4* to the financial statements, the Main Operating Account, the Imprest Account (NHASP) and the twenty (20) Trust Accounts operated by the Provincial AIDS Councils combined account balance was stated as K2,622,870. The Council did not maintain proper and adequate controls over the bank reconciliation process for its Main Operating account, the Imprest Account (NHASP) and the twenty (20) trust accounts operated by the Provincial AIDS Councils. There were no proper systems in place to ensure that monies belonging to the Council were properly kept and reconciled to the general ledgers to avoid embezzlements and improper use of funds. Further, the validity and correctness of the reconciliation process was not checked and verified.



Further, the bank confirmations for the Operating Account, Imprest Account (NHASP) and the twenty (20) Trust Accounts were not provided for my audit examination and review. As a result, I am unable to state whether the account balance as presented is a true and correct account balance as at 31 December, 2007.

**8. Government Grants – K11,656,300**

Government Grants were stated as K11,656,300 in the financial statements. However, I was not provided the Grants Confirmation Certificates from the Department of Finance for my verification. Further, in the period twelve (12) report of the Public Accounts, I observed that an appropriation of K66,239,088 was made to the Council. The variance of K54,582,788 was not satisfactorily explained by the Council. As a result of this limitation, I am unable to state whether the account balance as stated at year end is fairly stated.

**9. Other Receipts – K177,525**

Other receipts were stated as K177,525 in the financial statements. However, I was not provided the receipt and deposit books maintained to verify these receipts. In the absence of proper and adequate accounting records and registers, I was not able to ascertain whether the valuation and the measurement of this balance was fair and correct.

**10. Expenses – K11,405,490**

Expenses were stated as K11,405,490 in the financial statements. However, I was not provided the documentation to confirm and verify the validity and the correctness of payments made to a stationery company in Port Moresby for a total sum of K1,685,700. Further, there was no documentary evidence of fair procurement, delivery and receipts of the goods and there was no stock records kept by the Council for the expenditure of the above amount of K1,685,700. As a result of this limitation, I am unable to state whether the expenses stated for the year ended 31 December, 2007 is correct and valid.

**DISCLAIMER OF AUDIT 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 evidence and accordingly, I am unable to express an opinion on the financial statement of the National AIDS Council for the year ended 31 December, 2007.

**OTHER MATTERS**

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

## 1. Internal Control Weaknesses

In the course of my audit, I observed that there were significant weaknesses in the Council's accounting systems and the overall internal control environment operating during the period of my review. There were no formalized policies, internal systems and procedural guidelines or manuals in operation to vouch the standard procedures involved in the accounting, administration and other operational areas that were undertaken. In particular the following anomalies and weaknesses were noted;

- a) There was no segregation of duties and as a result bank reconciliations were not reviewed and certified by an independent person; and
- b) There were numerous accounting and misclassification errors, omissions and misstatements of financial statement items.

Further, there were no strategic business plans, limited budgetary controls, inadequate financial and management reporting structure and information systems resulting in a weak corporate governance culture. This further resulted in systematic breakdowns and deteriorations in the internal control environment and ineffective accomplishment of the Council's main objectives.

## 2. Fixed Assets Management

In compliance with the *Public Finances (Management) Act, 1995* and the *Financial Instructions Part 32*, the Council should maintain an Assets Register to record all its asset purchases and a stock-take conducted annually to verify the existence and quantum of their value. I noted these anomalies in the records and accounts of the Fixed Assets;

- a) There was no proper fixed assets register maintained in 2007 and as a result, I noted an incomplete and inaccurate listing of assets without any depreciation schedule and proper classification of all assets, including costs, location, date of purchase and serial numbers. As such, the schedule of assets in the financial statements were prepared without any basis as it did not properly reflect the value of the fixed assets as at 31 December, 2007;
- b) The Council had a poor internal control system over the valuation and accounting process of fixed assets. The additions and disposals were not done by the Fixed Assets Officer but by another Assets Officer who was recently appointed and lacked the necessary skills required to fully understand the process and controls surrounding the establishment of the fixed assets register and its maintenance;
- c) There was no inventory or stock-take done of all assets in the custody of the Council, therefore I was not able to verify nor ascertain the accuracy and completeness of the assets;

- d) In my review of the general ledger, I noted that the additions to fixed assets totaling K385,043 were not captured in the fixed assets register. Failure to record assets details may result in the possibility of theft, loss, damage and deterioration of assets not detected and realized; and
- e) The transfer of the NHASP Assets on 21 December, 2006 were not taken up in the financial statements and the Fixed Assets Register. Further, the value of the transfers were not recorded.

In the absence of an accurate Fixed Assets Register and a comprehensive stock take undertaken, items could be lost, stolen or damaged without being detected or reported.

### **3. General Advance Management**

In my review of the advance register, I observed that advances made during the year were not recorded and traced to the beneficiaries and perused for acquittal purposes. I was unable to verify the appropriateness and the completeness of the register due to inadequate information provided in the advance register. I noted that travel and accommodation related expenses revealed that a substantial amount of K89,328 was paid for overseas and domestic travels but the acquittals were not provided for my review. This practice is contrary to the requirements of the *Public Finances (Management) Act, 1995* in relation to acquittal of advances.

### **4. Staff Advance Management**

I noted that there were no internal control procedures in place over staff advances. The Council had no proper guidelines in place that set out the requirements and procedures of obtaining advances as required under the *Public Finances (Management) Act, 1995*. I observed that advances totaling K83,205 were paid to staff who were requesting advances for reasons not genuine and new advances were granted without full recovery of the outstanding advances.

### **5. Employee Provisions**

The Council did not maintain salary history cards that may include a schedule of liabilities and entitlements for the staff when annual leave, long service leave and gratuities were due. In the absence of such records, the Council was at the risk of duplicate and incorrect payouts for staff entitlements.

### **6. POSF Contributions**

POSF contributions and Group Taxes totaling K38,671 and K169,344 respectively were not settled during the year. I was not provided any explanation for this delay. Such delays may incur penalties required under the *Income Tax Act, 1959 (as amended)* and the delays in remitting the POSF contributions would adversely affect any interest calculations that may have been due to the respective staff members accounts during the year.

## 7. Internal Controls over Salaries & Wages

I noted that payroll functions were undertaken solely by the Finance Manager. The Finance Manager was in absolute control over preparation and the authorization of the payroll. There was no independent person to check and verify the payroll before the Director's approval. I also noted that the Finance Manager prepared the calculation of gratuity payments and there was no independent person checking and verifying these gratuities before being approved for payment. In the absence of this important internal control mechanism, I was unable to state whether the payment of K3,662,360 as salary, wages and employee benefits was correct and accurate.

## 8. Procurement Procedures

National AIDS Council, as a statutory body, is required to comply with the provisions of the *Public Finances (Management) Act, 1995*. However, in many instances, the Council failed to comply with these requirements and had committed public monies without due care to economy, wastage and extravagance. A Port Moresby based stationery company was the major stationery supplier to the Council. I noted that there were no contractual agreements or tender procedures followed in the engagement of this supplier by the Council. Payments totaling more than K1.6 million was made to the company without adherence to proper procurement procedures. In the absence of compliance and due regard to procurement guidelines stipulated by the *Public Finances (Management) Act, 1995*, public funds may have been misapplied.

## 9. Disposal of Motor Vehicle

According to the schedule of assets provided in the transfer documents of all NHASP assets, 26 vehicles were transferred to National AIDS Council Secretariat after winding up their operations. From these 26 vehicles, 19 Utes were allocated to the Provincial AIDS Councils and seven (7) Sedans were disposed to the respective managers. The disposal of these seven (7) vehicles to the respective managers were done through a Senior Executive Management meeting held on 15 December, 2006, where it was resolved that the seven (7) vehicles be allocated to respective Program Managers, (which eventually had their ownership transferred on 22 January, 2007). These Sedans were acquired at 50% staff incentive discount on their carrying amounts through salary deductions. I noted the following discrepancies in relation to the above;

- a) The Council did not follow proper tendering procedures as required by the *Public Finances (Management) Act, 1995* to dispose the seven (7) vehicles to the executive managers. Further, there was no Council approval for the disposal of these assets;
- b) Senior Executive Management meeting minutes in relation to the disposals of the seven (7) vehicles were not provided for my review and audit;

- c) The supporting source documents to verify and confirm the existence and the ownership of the 19 vehicles located in 19 Provincial AIDS Council Offices were not provided; and
- d) The transfer of the motor vehicles to the Council books by NHASP were not taken up in the Fixed Assets Register, the General Ledgers and the financial statements.

In view of the above, I was unable to confirm whether the transfer of the vehicles by NHASP was properly accounted for by the Council and that the subsequent vehicle disposals were properly done.

#### **10. Report under *Public Finances (Management) Act, 1995***

The Council is required to submit an annual report on performance and management and a quarterly report on all investment decisions, a detailed report on investments, performance and returns for each year and a five (5) year investment plan (up-dated each year) setting out investment policies, strategies and administrative systems to be pursued and providing forecasts of investment flows and returns. However, I noted that the management did not submit its relevant reports as required under *Section 63 (2)* of the *Public Finances (Management) Act, 1995* to the Minister for the year ended 31 December, 2007.”

### **20.3 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 Council for the years ended 31 December, 2008 and 2009 were completed. The Management however, had not responded to the matters raised in my management letters to date in order for me to finalise and issue my reports under the *Audit Act, 1989 (as amended)*.

The financial statements for the year ended 31 December, 2010 had not been submitted by the Council for my inspection and audit despite repeated reminders.

## **21. NATIONAL BROADCASTING CORPORATION**

### **21.1 INTRODUCTION**

#### **21.1.1 Legislation**

The National Broadcasting Commission 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.

#### **21.1.2 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 programmes.

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; to do all in its power to preserve and stimulate pride in the indigenous and traditional cultural heritage of Papua New Guinea; to take extreme care in broadcasting material that could inflame racial or sectional feelings; and to co-operate with the Government in broadcasting social, political, economic and educational programmes.

### **21.2 AUDIT OBSERVATIONS**

#### **21.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements of the Corporation for the year ended 31 December, 2007 was issued on 31 May, 2011. The report contained a Disclaimer of Opinion.

#### **“BASIS OF DISCLAIMER OF OPINION**

##### **Internal Control Environment**

During my review I identified significant weakness in the Corporation's overall internal control environment operated during the period under audit. The Finance and Administration Division was unable to provide documentary evidence for most of the account balances. The staff employed within the Corporation lacked adequate skill and training required to perform the task allocated to them.

Further, I noted that migration from CBA Accounting software to Attaché Accounting System was poorly supervised and managed. The Corporation has an internal audit division, but it was not been effective. The internal audit division had not produced any internal audit reports during 2007 highlighting the weaknesses of internal controls of the Corporation. As a result of the weak internal control environment, I was unable to rely on the overall internal control system of the Corporation.

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

I issued a disclaimer of opinion in my audit report for the year ended 31 December, 2006. The reason for such a disclaimer of opinion was the limitation of scope arising from my inability to obtain proper explanations for the differences that arose between the general ledger balances and the financial statements. 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, 2007. As a result, 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.

### **Limitation of Scope on the General Ledgers**

Material differences were noted between the general ledger balances generated by the accounting system used by the Corporation and the amounts stated in the financial statements. I was not provided with details of all journal entries passed in relation to the adjustments made for the differences. Due to the above, I was unable to place reliance on the accounts and records submitted for my audit verification to establish whether the National Broadcasting Corporation had fully complied with the statutory requirements for maintaining proper accounts and records.

### **Limitation of Scope Arising from Lack of Information/Records on Fixed Assets**

The carrying value of the Corporation's fixed assets was K40,293,055 as at 31 December, 2007. This represented 66% of the total assets of the Corporation. I was neither able to establish nor confirm the ownership of the revalued land and buildings totalling K33,069,151. Further, the evidence of ownership of various fixed assets and details of their effective lives were not made available for my examination and verification. Also, no proper fixed assets register was maintained and the Corporation did not undertake a physical stock-take of its fixed assets during the year under review. As a result, I was unable to verify the physical existence, ownership, usefulness and valuation including the adequacy or otherwise of the provision for depreciation of fixed assets.

### **Scope Limitation – Accounts Receivable – K3,212,629**

The accounts receivables were stated as K3,212,629 at the year end. These account comprised of Trade Debtors balance of K23,253 and K3,189,376 in prepayments. In the absence of sufficient documentary evidence of the trade debtors and prepayment balances, I was unable to verify the accuracy, completeness and validity of the account balance at the year end.

**Scope Limitation – Cash and Cash Equivalents – K16,933,689**

The cash and cash equivalent was disclosed as K16,933,689 at 31 December, 2007. The Bank reconciliations were not available for some of the bank accounts operated by the National Broadcasting Corporation including Petty Cash Accounts. Further, the Corporation disclosed an overdraft bank balance of K4,680,584 as a current liability in the financial statements whilst the direct bank confirmation disclosed the main bank account balance as at 31 December, 2007 as K94,311.46 in debit balance. However, the Corporation had not provided any overdraft facility documentation for my review. In the absence of proper reconciliations of the bank accounts, I was unable to confirm on the completeness, accuracy and existence of the bank and petty cash balance totaling K16,933,689 and the bank overdraft balances as disclosed in the financial statements at the year end.

**Scope Limitation – Trade Creditors – K3,712,219 and Accruals – K1,526,222**

The Corporation disclosed Trade Creditors balance of K3,712,219 and accruals balance of K1,526,222 respectively in the financial statements at the year end. These accounts were not supported by any reconciliations and appropriate documentary evidence. As a result, I was not able to confirm the accuracy, completeness and existence of Trade Creditors and Accruals at balance date. Furthermore, I was unable to perform the cut-off procedures test of sundry creditors to ascertain whether all credit transactions were recorded in the correct accounting period and that accruals were fairly recorded and that the method of accounting for accruals was consistently applied. As a result, I was unable to confirm whether the account balances were fairly stated at the year end.

**Scope Limitation – Deferred Income – Donations**

The Corporation disclosed K18,156,662 as deferred income for donations at the year end lacked appropriate supporting documentation. The annual amortization amount of K3,728,669 transferred to Grant Income could not be verified due to the lack of supporting documentation. As a result, I was unable to confirm the validity of the account balance, completeness and accuracy of the amount.

**Scope Limitation – Provisions**

In Note 10 to the financial statements, the Corporation disclosed staff entitlements amounting to K2,979, 404 at the year end. This amount comprised of K1,112,832 for recreation leave, K1,340,712 for furlough leave and K525,860 for pro-rata furlough leave. I was unable to validate the existence, accuracy and completeness of the account balance due to the absence of sufficient and appropriate documentary evidence at the year end.



### **Scope Limitation - Profit and Loss Account**

The Corporation reported total revenue as K42,097,854, expenditure as K27,095,011 and recorded net profit of K15,002,842 for the year ended 31 December, 2007. I was not provided with appropriate supporting documentary evidence in respect of the sources of revenue and expenditure accounts for the period under review to substantiate the subsidiary account balances. Because of the limitation in documentary evidence, I was unable to verify the accuracy, completeness and validity of the account balances at the year end.

### **DISCLAIMER OF OPINION**

In my opinion, because of the limitation of the scope of my work and other matters referred to in the Basis for Disclaimer Opinion paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitations and other matters not existed, I am unable to and do not express an opinion on the financial statements of the National Broadcasting Corporation for the year ended 31 December, 2007.”

## **21.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December, 2008 was in progress.

The financial statements of the Corporation for the years ended 31 December, 2009 and 2010 had not been submitted for my inspection and audit.

## **22. NATIONAL CAPITAL DISTRICT COMMISSION**

### **22.1 INTRODUCTION**

#### **22.1.1 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 National Capital District, and make preparatory arrangements for the establishment of a government for the National Capital District as required by *Section 4(4)* of the National Constitution. The *National Capital District Government (Preparatory Arrangements) [Amendment] Act, 1987*, came into operation in 1987.

The *National Capital District Commission Act, 1990*, which became operational on 5 November, 1990, established the National Capital District Commission.

The introduction of this Act resulted in the amalgamation of Motu-Koitabu Interim Assembly with National Capital District 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 National Capital District through the *National Capital District Commission (Amendment) Act, 1995*, which came into operation on 19 July, 1995. The National Capital District comprises the National Capital District Commission, the Motu-Koitabu Council and Local-Level Governments in the National Capital District.

#### **22.1.2 Functions of the National Capital District Commission**

The functions of the National Capital District Commission are:

- (a) to control, manage and administer the National Capital District, to ensure its welfare and that of the persons in its jurisdiction; and
- (b) to 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 National Capital District.

## **22.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **22.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements of the Commission for the years ended 31 December, 2007 and 2008 were issued on 08 November, 2010 and 27 June, 2011 respectively. These reports contained Disclaimed Opinions, hence, only the 2008 report is reproduced below:

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **Limitation of Scope Regarding Opening Balances**

Because of the disclaimer of opinion in respect of the prior year ended 31 December, 2007, I was not able to satisfy myself as to the resolution of the issues which formed the basis for the disclaimer on the opening balances. Since these opening balances enter into the determination of the result of operations, financial position and cash flows of the Commission in the current year, I am unable to determine whether adjustments to the results of operations, financial position and cash flows might be necessary as at and for the year ended 31 December, 2008.

##### **Deposits on Call**

As set out in Note 7 of the Financial Statements, deposits on call totaled K17.3 million. The financial institution's with whom these deposits were held at balance date did not respond to my request for confirmation of balances and furthermore, due to the absence of appropriate third party documentation in the Commission's possession, I am unable to adequately and comfortably conclude on the existence and confirmation of the Commission's rights over this balance as at year end.

##### **Bookmakers' Tax Receivable**

At 31 December 2008, Bookmakers' tax receivable amounted to K3.99 million and represented amounts purported to be owed by the Government of PNG through Internal Revenue Commission (IRC). I did not receive any confirmation acknowledging this debt from the Department of Finance or IRC and due to the absence of appropriate evidence, I was unable to ascertain if this asset is recoverable.

##### **Staff and Other Debtors**

Staff and other debtors, net provision for doubtful debts, totaled K0.73 million at balance date. Due to the absence of general ledger reconciliations and supporting documentation, I was unable to obtain comfort over the completeness, accuracy, existence and rights over the amount recorded as receivable.

**Land and Garbage Rate Debtors**

Land and garbage rate debtors, net of provision at balance date totaled K23.2 million. General Ledger reconciliations and appropriate evidences were not provided to support the debtors and the corresponding provisions for doubtful debts. Furthermore, the database from which generation reports are produced and based on which these debts are extracted and journalized into the general ledger debtors accounts, is inaccurate and physically unverifiable to physical buildings and properties. Consequently, it appears rates debtors are incomplete and inaccurate. Due to this limitation of scope and exceptions, I was unable to obtain comfort over the completeness and accuracy of the debtors as well as the adequacy of the doubtful debts provision.

**Capital Road Works**

The Commission capitalized all road improvement costs 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, 2008 was K144.9 million which primarily includes the amount capitalized in 2005. I was unable to test check the accuracy of the depreciation charges for reasonableness as I was not provided with appropriate documents for the depreciation charges of K29.3 million on the road assets for the year. I am therefore, unable to substantiate the carrying value of these assets as at year end.

**Property, Plant and Equipment**

Property, plant and equipment amounted to a net book value of K6.43 million at year end. The details of these assets are maintained on an excel spreadsheet file and updated at year end after clearing capital purchase expense accounts. The spreadsheet appears to have errors as final working papers were not checked for accuracy and completeness. The Commission does not conduct physical stock takes to verify the existence of asset items on a regular basis. Consequently, I am unable to conclude on the completeness and accuracy of the assets register and the corresponding balances in the general ledger and accounts.

**Investments**

As set out in Note 15 of the financial statements, the Commission has investments in various unquoted securities with a total carrying value, net of impairment provision of K0.17 million. Management has not performed an exercise to determine the fair value of these investments at year end. Accordingly, I was unable to confirm whether these investments are reflected at appropriate carrying values.

**Payables**

As set out in Note 12 of the financial statements, payables totaled K25.5 million. Included in the payables is an amount owing to Internal Revenue Commission for group tax of K11.6 million which could not be confirmed from IRC. Due to the unavailability of appropriate supporting documentation and adequate performance of cut-off procedures, this balance could not be verified.

### **Employee Benefits Provision**

Employee benefits provision comprising of long service leave and annual leave amounted to approximately K5.2 million. I was unable to substantiate this balance as the Commission's Human Resources staff could not locate and provide me the appropriate supporting documentation. Consequently, I was unable to satisfy myself with the completeness and accuracy of this balance.

### **Contingent Liabilities**

Note 21 of the financial statements outlined a significant number of pending legal cases amounting to over K30 million. As I did not receive adequate information from the Commission or its legal advisors regarding the nature and likely outcome of these cases, I was unable to obtain comfort regarding whether or not the treatment of these claims as contingent liabilities was appropriate.

### **Land, Garbage and Sanitation Rates Income**

The land, garbage and sanitation rates income is calculated based on the information recorded within the TARMIS system. The initial calculation of the rates includes certain properties of institutions which are exempt from paying these rates. This error is adjusted as part of the provision for doubtful debts. As a result, revenue of the Commission is overstated by the amount of rates calculated on the exempt properties and institutions.

Further, provision and adjustments for defaulters of 40% for land rates and 60% for garbage rates are made against the TARS generation report figures. These figures are on estimate basis and have no valid support for the adjustments amounting to K2.2 million which was incorporated in relation to exempt properties and institutions. As a result, I am unable to determine if the land, garbage and sanitation rates income are fairly stated in the income statement.

### **Salaries and Wages**

I noted a number of issues in relation to salaries and wages payment procedures, primary among which were; errors noted in the calculation of tax applicable to benefits such as housing and motor vehicle provided by the employer, errors noted in the calculation of taxable income, errors noted in the calculation of salaries and wages tax and unsubstantiated deductions from and payments to employees. Consequently, I was unable to obtain comfort over the completeness, accuracy and occurrence of the transactions underpinning these amounts.

### **Related Party Disclosures**

As set out in Note 14 of the financial statements, not all disclosures required by *IAS 24-Related Party Disclosures* were included in the financial statements. The amounts involved were not disclosed in the following related party transactions – grants to Motu-Koitabu Council, Tabudubu Limited and National Capital Botanical Enterprises Limited, stipends or sitting allowances to commissioners and salaries and other employment benefits to key management personnel. This represents a departure from *IAS 24 – Related Party Disclosures*.

## DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of National Capital District Commission for the year ended 31 December, 2008.

## OTHER MATTERS

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

- **Internal Controls**

In addition to the specific issues I have identified in the course of my audit, my general observation is that the issues identified are symptomatic of a number of broader matters. In particular, given the number of issues identified in my audit, it appears that insufficient priority is being given to implement change in the internal control culture within the organization and improve the state of the finance function. It also appears, based on my findings that the current people resources are inappropriately skilled to make the necessary changes required to address the matters identified. Accordingly, I recommend that the issues around internal controls, governance and appropriate resource requirements be reviewed as a matter of priority.

Further, while I was not required to specifically look for fraud, my audit suggests that the inadequate internal control environment provides an ideal opportunity for fraud or other improper activities to occur. A number of staff of the finance division have been involved in misappropriation of the assets of the Commission and have been terminated in 2010 in relation to fraud. This indicates that a thorough investigation into all the matters identified in our report is required as a matter of priority to ensure that fraudulent activities are uncovered and promptly corrected. Accordingly, I recommend that a regular surprise forensic audit be conducted as a matter of priority, together with a review to strengthen the processes and procedures.

- **Internal Audit**

As stated in my 2007 audit report, the internal audit department is not operating as intended although the scope and charter had been documented by the Department of Finance in its Finance Instruction numbered 01/2005 dated February, 2005. With the establishment of the NCDC audit committee, I recommend that the Commission should ensure that the scope and responsibilities of the internal audit department is adequately determined and sufficiently resourced.”

## **22.3 STATUS OF FINANCIAL STATEMENTS**

The Commission had not submitted its financial statements for the years ended 31 December, 2009 and 2010 for my inspection and audit.

**22A. NATIONAL CAPITAL DISTRICT BOTANICAL ENTERPRISES LIMITED  
(A SUBSIDIARY OF NATIONAL CAPITAL DISTRICT COMMISSION)**

**22A.1 INTRODUCTION**

The National Capital District Botanical Enterprises Limited was incorporated under the *Companies Act, 1997* on 17 January, 2000.

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

Port Moresby City Development Enterprises Limited, a 100% owned subsidiary of the National Capital District Commission, holds 94% of the shares and the National Capital District Commission holds the remaining 6% shares directly or indirectly through trust.

**22A.1.1 Activities**

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

**22A.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December, 2003 to 31 December, 2008 were still in progress due to the failure of the Company to provide the necessary information to enable the audits to be finalised.

The financial statements for the years ended 31 December, 2009 and 2010 were not provided for my inspection and audit.



**22B. PORT MORESBY CITY DEVELOPMENT ENTERPRISES LIMITED  
(A SUBSIDIARY OF NATIONAL CAPITAL DISTRICT COMMISSION)**

**22B.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 National Capital District Commission.

**22B.1.1 Activities**

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

**22B.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December, 2002 to 2005 were still in progress due to the failure of the Company to provide the necessary information to enable the audits to be finalised.

The Company had not submitted its financial statements for the years ended 31 December, 2006 to 31 December, 2010 for my inspection and audit inspite of numerous reminders.

## **23. NATIONAL CULTURAL COMMISSION**

### **23.1 INTRODUCTION**

#### **23.1.1 Legislation**

The National Cultural Commission was established under the *National Cultural Commission Act, 1994*. This Act came into operation on 15 November, 1994 thereby 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.

#### **23.1.2 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 Papua New Guinea; to encourage the development, promotion and protection of the contemporary cultures of Papua New Guinea; to facilitate the marketing of selected and approved aspects of the cultures of Papua New Guinea; to co-ordinate with related Government and Non-Government Agencies on cultural matters; to co-ordinate cultural activities with Provincial Cultural Bodies; to liaise with Non-Government Organisations on cultural matters; and to liaise with International Cultural Organisations.

### **23.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **23.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the Commission's financial statements for the years ended 31 December, 2008 and 2009 was issued on 09 May, 2011 and 11 May, 2011 respectively. The reports contained similar Qualified Audit Opinions, hence only the 2009 report was reproduced as follows:

#### **“BASIS FOR QUALIFIED AUDIT OPINION**

##### **FIXED ASSETS – K2,331,490**

I was not able to verify the ownership of land and building, motor vehicles, artefacts and equipments held by the Commission in Goroka and Port Moresby. The Commission was in the process of compiling a list of land and buildings and ensuring that appropriate title deeds were in place. The available documentation was inadequate to enable me to perform the necessary audit procedures and satisfy myself that the Commission held appropriate titles to its recorded land and buildings. As a result, I was unable to satisfy myself as to the ownership, existence and valuation of fixed assets as reported in the financial statements.

**CASH ON HAND AND AT BANK-K1,243,371**

The Commission's Cash and Bank balance was disclosed as K1,243,371 at the year end. My examination revealed that monthly bank account reconciliations were not prepared by the Commission for all its bank accounts during the year under review. The staff members engaged to perform the bank reconciliations did not have the necessary skills and experience to prepare bank reconciliations on a timely basis. As a result, I was unable to verify the correctness and accuracy of the closing bank balance at the year end.

**OTHER MATTERS****NON-COMPLIANCE WITH THE PUBLIC FINANCES (MANAGEMENT) ACT**

The Commission did not comply with the provisions of the *Public Finances (Management) Act, 1995 (as amended)* by not submitting its financial statements on a timely basis to perform and conclude the audit within the timeframe set by the Act.

**QUALIFIED AUDIT OPINION**

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

- (a) the financial statements of the Commission are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Commission as at 31 December, 2009, and the results of its financial operations for the year then ended."

**23.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Commission had not submitted its financial statements for my inspection and audit.

## **24. NATIONAL ECONOMIC AND FISCAL COMMISSION**

### **24.1 INTRODUCTION**

#### **24.1.1 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*.

#### **24.1.2 Functions of the Commission**

The main functions of the Commission are to:

- (a) provide assessment and views on national macro and micro economic issues and their relevance on the overall development of rural and urban communities;
- (b) consider and co-ordinate requests by Provincial Governments and Local-Level Governments for foreign grants, loans and other financial assistance for development purposes;
- (c) ensure that Provincial Governments and Local-Level Governments obtain a fair share of national wealth and make recommendations to the National Executive Council on the allocation of grants to Provincial Governments and Local-Level Governments;
- (d) recommend suitable economic development strategies and sound fiscal management policies to the Minister responsible for financial matters;
- (e) 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 National Executive Council;
- (f) review public accounting and related practices;
- (g) make yearly reports and recommendations to the National Executive Council through the Minister responsible for financial matters;
- (h) 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;
- (i) establish and maintain a gradation system for the purpose of classifying provinces and districts according to the stages of development of each;

- (j) assist the Provincial and Local-Level Service Monitoring Authority in carrying out its other functions; and
- (k) provide advice to the Minister responsible for Provincial Government and Local-Level Government (now Inter Government Relations) matters as and when required.

## **24.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements for the years ended 31 December, 2007, 2008, 2009 and 2010 were not submitted for my inspection and audit, despite numerous reminders from my Office.

In my correspondences to the Commission, I requested it to comply with the provisions of the *Public Finances (Management) Act, 1995*, especially its responsibilities under *Section 63* where amongst other things, it is required to furnish its financial statements around March of the subsequent year for my inspection and audit and for that report to be tabled in Parliament.

The Commission did not comply with these requirements.

## **25. NATIONAL FISHERIES AUTHORITY**

### **25.1 INTRODUCTION**

#### **25.1.1 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, 1994*, were transferred to and became assets of the Authority.

#### **25.1.2 Functions and Powers of the Authority**

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

- (1) The Authority shall:-
  - (a) manage the fisheries within the fisheries waters in accordance with this Act, taking into account the international obligations of Papua New Guinea in relation to tuna and other highly migratory fish stocks;
  - (b) make recommendations to the Board on the granting of licences and implement any licensing scheme in accordance with this Act;
  - (c) liaise with other agencies and persons, including regional and international organisations and consultants, whether local or foreign, on matters concerning fisheries;
  - (d) operate research facilities aimed at the assessment of fish stocks and their commercial potential for marketing;
  - (e) 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;
  - (f) appraise, develop, implement and manage projects, including trial fishing projects;
  - (g) prepare and implement appropriate public investment programmes;
  - (h) collect data relevant to aquatic resources;
  - (i) 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 Papua New Guinea is or may become a party;
  - (j) make recommendations on policy regarding fishing and related activities;

- (k) establish any procedures necessary for the implementation of this Act, including tender procedures; and
  - (l) 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.
- (2) 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.

## 25.2 AUDIT OBSERVATIONS

### 25.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2008 was issued on 4 February, 2011. The report contained a Qualified Audit Opinion.

#### **"BASIS FOR QUALIFIED OPINION**

Limitation of scope and departure from *International Financial Reporting Standards*.

#### **Non-Compliance with IAS 16 "Property, Plant and Equipment"**

The Authority adopted the revaluation model for the measurement of property, plant and equipment. The last revaluation of property, plant and equipment was undertaken in 2001. That, in my opinion, was not in accordance with *International Accounting Standard 16 "Property, Plant and Equipment" (IAS 16)*. Where a revaluation model is being adopted, *International Accounting Standard 16 (IAS 16)* paragraph 31 requires that the revaluations be made with sufficient regularity to ensure that the carrying amounts of property, plant and equipment do not materially differ from the fair values determined through revaluation. As a result of non compliance with IAS 16 paragraph 31, I was unable to satisfy myself whether the carrying value of property, plant and equipment at the balance date was correctly derived.

#### **Limitation of Scope - Land and Buildings – K19,693,254**

The Authority had not fully compiled the documentation on land and buildings in ensuring that appropriate title deeds were in place. The available documentation was inadequate to allow me to perform audit procedures and satisfy myself that the Authority held appropriate titles to its recorded land and buildings. As a result, I was unable to verify the Authority's ownership of land and buildings and therefore unable to comment on the account balance at the year end.

### **Limitation of Scope – Long Term Loan Transfer to Equity – K19,139,858**

The statement of changes in Government Reserve reflected that a long term loan of K19,139,858 was transferred to equity during the year ended 31 December, 2006. The Independent State of Papua New Guinea (the “State”) successfully negotiated a subsidiary loan with the Asian Development Bank “ADB”). The agreement for which was entered into between the ADB and the Authority. The loan was completely drawn down in 2003 and was forgiven by the State hence the write back to equity. I was not provided with the subsidiary loan agreement or documentation to support the fact that the loan was forgiven and is now the responsibility of the State. In the absence of such documentation, I was unable to satisfy myself as to the validity and completeness of this account balance at the year end.

### **Limitation of Scope – Asian Development Bank Loan – K11,641,409**

The Independent State of Papua New Guinea (the “State”) negotiated a loan amounting to K11,641,409 (4,284,000 Special Drawing Rights (SDR)) with the Asian Development Bank for the Coastal Development and Fisheries Management and Development Project. The State signed a subsidiary agreement with the Authority. I was not provided with independent confirmation of the loan amount and the terms from the State and accordingly, I was unable to satisfy myself as to the validity and completeness of the loan amount of K11,641,409 at the year end.

### **Income from US Treaty – K16,843,330**

The income from US Treaty of K7,282,519 of K16,843,330 stemmed from the Treaty signed between United States of America and 16 Pacific Island Nations (PIN) including Papua New Guinea. The Administrator of the fund was the Forum Fisheries Association (FFA) and the distribution of the funds was based on the catch by US fishing companies. I was also unable to independently verify this amount due to lack of supporting documentation. Consequently, I was unable to state whether or not the income from US Treaty had been fairly stated in the financial statements.

### **QUALIFIED AUDIT OPINION**

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

- a) the financial statements are based on proper accounts and records;
- b) the financial statements are in agreement with those accounts and records, and showed fairly the state of affairs of the National Fisheries Authority as at 31 December, 2008 and the results of its financial operations, its cash flows and the changes in equity for the year then ended.”



### **25.3 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, 2009 was in progress. The financial statements of the Authority for the year ended 31 December, 2010 had not been submitted for my inspection and audit.

## **26. NATIONAL GAMING CONTROL BOARD**

### **26.1 INTRODUCTION**

#### **26.1.1 Legislation**

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

#### **26.1.2 Functions of the Board**

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

### **26.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **26.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the Board's financial statements for the year ended 31 December, 2007 was issued on 30 June, 2011. The report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

##### **1. Opening Balances**

I am unable to confirm the correctness of the opening balances as at 1 January, 2007 due to errors and material limitations of scope expressed in previous audit reports. As a result of these limitations, I was unable to perform sufficient tests to verify the completeness and accuracy of these balances as at 31 December, 2007.

##### **2. Employee Benefits**

I am unable to confirm the correctness of the employee benefits of K217,600 as at 31 December, 2007 due to lack of supporting documentation.

#### **QUALIFIED OPINION**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements of the National Gaming Control Board for the year ended 31 December, 2007:

- (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 generally accepted accounting practices.

## OTHER MATTERS

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

- **Board Members**

Pursuant to Section 11 of the *Gaming Control Act, 2007*, board membership comprise of ten (10) members. Pursuant to Section 20, five members constitute a quorum for any board meeting and deliberation of issues. During the period under review, the Chairman was the only ex-officio board member appointed and made all decisions relating to the affairs of the Gaming Control Board. Since the term of the previous board expired on 12 March, 2006, the Minister responsible is yet to appoint new board members.

- **Submission of Financial Statements**

The Board 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*.

- **Internal Audit**

There is no internal audit unit established and I recommended that an internal audit unit be established to operate effectively as a function of internal control.

- **Gaming Machine Permit Fees and Gaming Machine Operators License Fees**

Section 37 of the *Gaming Machine Act, 2007* provides for a register to be maintained for Gaming Machine Permits and Gaming Machine Operators' Licenses. No register was maintained for the year. I recommend management to ensure a register is maintained.

- **Service Contracts**

The following service contracts were not made available for audit review;

- Pawa Security Services Limited;
- Southern Security Services Limited;
- Mercy Contractors Limited;
- TMS Global Services Limited; and
- Nambawan Super Limited.

As a result of the unavailability of the contract documents, I was unable to verify the legality and correctness of the contracts.”

### **26.3 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 Board for the year ended 31 December, 2008 was still in progress.

The Board had not submitted its financial statements for the years ended 31 December, 2009 and 2010 for my inspection and audit.

## **27. NATIONAL HOUSING CORPORATION**

### **27.1 INTRODUCTION**

#### **27.1.1 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.

#### **27.1.2 Functions of the Corporation**

The principal functions of the Corporation are: to improve housing conditions; to provide adequate and suitable housing or letting to eligible persons; to sell houses to eligible persons; to make advances to eligible persons and approved applicants to enable them to become the owners of houses occupied by them; to develop residential land by way of providing adequate services for human settlements; to carry out and promote research or investigations into matters connected with urban development and human settlements; and to maintain dwellings and associated buildings vested in the Corporation.

### **27.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Corporation had submitted its financial statements for the year ended 31 December, 2008 and preparations were being made to commence the audit shortly. The financial statements for the years ended 31 December, 2009 and 2010 were not submitted for my inspection and audit.

## **28. NATIONAL MARITIME SAFETY AUTHORITY**

### **28.1 INTRODUCTION**

#### **28.1.1 Legislation**

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

#### **28.1.2 Functions of the Authority**

The functions of the Authority are:

- (a) to perform the functions and exercise the powers as are conferred upon it by this Act or under any other law; and
- (b) to 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; and
- (c) to co-ordinate with other agencies and persons, including regional and international organizations and consultants, whether local or foreign, on matters concerning maritime safety, marine pollution prevention or search and rescue operations at sea; and
- (d) to collect data relevant to maritime safety, marine pollution prevention and search and rescue operations at sea; and
- (e) to 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; and
- (f) to make recommendations on policy to the Minister regarding maritime safety, marine pollution prevention and search and rescue operations at sea; and
- (g) to provide consulting services, training and management services relating to any of its functions whether in Papua New Guinea or overseas; and
- (h) where appropriate to consult with:
  - (i) other agencies of National Government; or
  - (ii) Provincial Governments; or
  - (iii) Local Governments; or
  - (iv) commercial, industrial and other relevant bodies and organizations, in relation to matters affecting them in the performance of its functions; and

- (i) generally to do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

## 28.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 28.2.1 Comments on Financial Statements

My report to the Ministers under the *Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2009 was issued on 22 February, 2011. The report contained a Qualified Audit Opinion as follows:

#### **“BASIS FOR QUALIFIED OPINION**

##### **Fees and Levies**

Operating revenue was stated as K19,740,520 in the 2009 financial statements. Included in this account balance was revenue earned from fees and levies of K15,810,331. In my review of the billing and collection of the various fees and levies collected, I noted that there was no proper and accurate system or database to capture all the foreign vessels that trade in PNG waters. Further, the Authority did not keep a proper, accurate and a complete database for those ships operating in the waters of PNG including important information such as name of the vessel, owner, length of vessel, and the place of registration. I noted that billing and collection of these fees and levies were based on information provided by the shipping agents which was considered unreliable.

In the absence of a proper database and a comprehensive revenue collection system, I am unable to state whether the revenue billing and collection by the Authority is accurate and complete.

#### **QUALIFIED AUDIT OPINION**

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

- (a) the financial statements of National Maritime Safety Authority comply with generally accepted accounting practice and give a true and fair view of the financial position of the Authority as at 31 December, 2009 and the results of its operations and its cash flows for the year ended on that date; and
- (b) proper accounting records have been kept by the Authority as far as appears from my examination of those records.”

### **28.2.2 Audit Observations Reported to the Ministers**

My report to the Ministers under the *Audit Act, 1989 (as amended)*, on the audit and inspection of the accounts and records of the Authority for the year ended 31 December, 2009 was issued on 22 February, 2011. The report contained the following observations:

#### **Internal Control Weaknesses**

I wish to draw your attention to the following internal control weaknesses revealed during the course of the audit;

- a) there were instances where the *Section 32* Officer did not approve requisitions for expenditure before making payments for various goods and services; and
- b) there was no proper system or procedures in place to ensure adequate collection of fees and levies from vessels operating in Papua New Guinea waters, leading to a possible loss of revenue to the Authority.

The management advised that it had taken note of the above weaknesses and will ensure the situation improves in future.

### **28.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements for the year ended 31 December, 2010 had been submitted for my inspection and audit, and arrangements were being made to commence the fieldwork shortly.



## **29. NATIONAL MUSEUM AND ART GALLERY**

### **29.1 INTRODUCTION**

#### **29.1.1 Legislation**

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

#### **29.1.2 Functions of the Museum**

The main functions of the Museum are: to protect and conserve the cultural and natural heritage of Papua New Guinea; to research and document the prehistory of Papua New Guinea and manage the national archaeological collections, and monitor archaeological research in Papua New Guinea; maintain the national register of traditional and archaeological sites; identify, 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)*.

### **29.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **29.2.1 Comments on the Financial Statements**

My reports to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the Museum's financial statements for the years ended 31 December, 2007 and 2008 were issued on 29 June, 2011 and 30 June, 2011 respectively. These reports were similar Disclaimer of Opinions, hence, only the 2008 report is reproduced as follows:

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **Accounting System**

There is no proper basis for a systematic preparation of financial statements. The Museum did not maintain necessary accounting records and documents such as commitment control ledgers, receipt books and assets register which should form the basis of the preparation of the financial statements. In the absence of these records and documents, I was not able to place any reliance on the computer generated Access-based general ledger which was used as the basis for the preparation of the financial statements. I therefore, could not extend my audit procedures to perform sufficient tests to verify the validity and accuracy of the figures reflected in the financial statements.

##### **Fixed Assets - K1,993,724**

The Museum did not regularly update its assets register with the details of acquisitions and disposals during the year, nor was an annual stock under taken to determine the existence of assets and to identify obsolete items.

Furthermore, I noted that artifacts and science collections have accumulated over many years and hence, there is a large volume of collections and artifacts for which there is a lack of a proper database system to record, update and revise the collections periodically. In the absence of such proper documentation, the correctness, completeness and existence of these collections could not be verified.

### **Expenditures - K294,362**

I noted that payment vouchers totaling K294,362 made for various goods and services were not made available for my inspection and review. In the absence of these documents, I am unable to confirm the accuracy, validity and propriety of these payments.

### **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 National Museum & Art Gallery for the year ended 31 December, 2008.”

### **OTHER MATTERS**

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

- **Main Operating Account**

My review of the bank reconciliation of the Main Operating Account as at the balance date revealed a lack of segregation of duties in the preparation of the bank reconciliation statements as evidenced by the absence of signatures of the reviewer and the preparer on the bank reconciliations. I recommend that the preparer and the reviewer sign on the reconciliations to confirm their separate involvement in the preparation of these accounting records for the period.

- **Undisclosed Bank Accounts**

I noted that the JK McCarthy Bank Account and Project Account were not reflected in the general ledger and the financial statements submitted for audit. These accounts were also not disclosed in the prior year’s financial statements. I was also not provided with any explanation, documents or information on the status of these accounts in the current period.

- **Acquittal of Travel Advances**

The Museum did not properly maintain a travel advance register to record advances made to staff. I noted that the advances totaling K21,000 paid to staff during the year were not recorded and traced to the beneficiaries and perused for acquittal purposes which were contrary to the requirements of the *Public Finances (Management) Act, 1995*.

- **Operational Manuals**

I noted that there were no guidelines/operational policies or procedural manuals that clearly define the segregation of functional responsibilities, system of authorization and recording, overall security and safeguarding of the use of public funds. I noted that only one (1) officer had absolute control of the requisitions up to the payment or issuance of cheques.

### **29.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Museum had submitted its financial statements for the year ended 31 December, 2009 for my inspection and audit and arrangements were being made to commence the audit shortly.

The Museum had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.

## **30. NATIONAL NARCOTICS BUREAU**

### **30.1 INTRODUCTION**

#### **30.1.1 Legislation**

The National Narcotics Bureau was established in April, 1992 by the enactment of the *National Narcotics Control Board Act, 1992*.

#### **30.1.2 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 re-habilitation program, and conduct surveys and gather and evaluate information, on the consumption, cultivation, trafficking and manufacture of drugs.

### **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, 1989 (as amended)*, on the financial statements of the Bureau for the years ended 31 December, 1998, 1999, 2000, 2001 and 2002 were issued on 29 June, 2011. The reports contained similar Disclaimer of Opinions, hence, only the 2002 report is reproduced as follows:

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **1. Accounting & Internal Control Systems**

The Bureau did not maintain adequate and proper accounting records and registers to form the basis for a systematic preparation of the financial statements. There were no proper commitment control ledgers and documentary evidence in support of the account balances reported in the financial statements. There was a serious breakdown in the accounting system as a whole which effectively meant that I was unable to place any reliance on the completeness and accuracy of the accounts maintained. As a result of these limitations of scope, I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the account balances as at 31 December, 2002.

##### **2. Cash at Bank**

The Bureau maintained one (1) main operating account and four (4) subsidiary accounts. The Bureau's cashbook could not be relied upon as cheque numbers were missing or not in sequence and in addition, the bank reconciliations were missing and the underlying records were not made available. Further, I was not provided with the direct bank confirmations to verify the bank balances as at 31 December, 2002. Consequently, I was not able to confirm the accuracy, validity and correctness of the cash at bank and the surplus balance of K67,447 as declared by the Directors of the Bureau.

**3. Surplus – K67,447**

The Bureau recorded a surplus of K67,447 in the financial statements. I was not provided the necessary bank reconciliation statements and the supporting documentation to verify and confirm the account balance for the year ended 31 December, 2002. Consequently, I was not able to state whether the surplus was fairly stated in the financial statements for the year then ended.

**4. Fixed Assets**

The Bureau did not maintain proper accounts and records to record the movements and details of fixed assets under its custody at year end. Consequently, I was unable to determine the completeness, existence, accuracy and valuation of the fixed assets in the custody of the Bureau and the Capital Expenditure undertaken, if any, as at 31 December, 2002.

**5. Income**

Income was stated in the statement of receipts and payments as K1,501,900. The income was received mainly from the Government. Excluded from this amount was income of K93,299 from the subsidiary accounts which was not taken up in the statements of receipts and payments. I was not able to substantiate this amount due to lack of supporting documentary evidence. As a result, I was not able to confirm and verify the correctness of the account balance at year end.

**6. Payments**

Payments were stated as K1,434,453 in the financial statements. Included in this balance were payments made for Rental, Travel and Subsistence, Salaries and Wages and Leave Fares totalling K125,708, K50,947, K539,967 and K21,142 respectively. I was not provided the supporting documentation in relation to rental agreements, travel itineraries, acquittals register, payroll records and cheque voucher to determine the validity and the correctness of monies paid as such. In the absence of the supporting documentation, I was not able to confirm or verify the validity and the correctness of the account balance for the year end 31 December, 2002.

**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 evidence and accordingly, I am unable to express an opinion on the financial statements of the National Narcotics Bureau for the year ended 31 December, 2002.

## OTHER MATTERS

In accordance with the *Audit Act, 1989 (as amended)*, I have a duty to report on other significant matters arising out of the financial statements, to which the report relates. I wish to draw your attention to the following issues:

### 1. Financial Delegates

The list of financial delegates with their specimen signatures were not provided for me to verify the authorization and approval of payments made by *Section 32 Officers* during the year.

### 2. Meeting Minutes

*Section 8* of the *National Narcotics Bureau Act, 1992*, requires at least six (6) Board meetings to be held in each year. However, no meeting minutes were provided for my review. Therefore, I was not able to determine whether meetings were conducted as per the requirements of the enabling legislation.

### 3. Report under *Public Finances (Management) Act, 1995*

The Bureau is required to submit an annual report on performance and management and a quarterly report on all investment decisions, a detailed report on investments, performance and returns for each year and a five year investment plan (up-dated each year) setting out investment policies, strategies and administrative systems to be pursued and providing forecasts of investment flows and returns. However, I noted that the management did not submit its relevant reports as required under *Section 63 (2)* of the *Public Finances (Management) Act, 1995* to the Minister for the year ended 31 December, 2002.”

## 30.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Bureau had not submitted its financial statements for the years ended 31 December, 2008, 2009 and 2010 for my inspection and audit.

The Bureau was also requested to resubmit the financial statements for the years ended 31 December, 2003 to 2007 on 20 October, 2008, 6 July, 2009 and 16 February, 2010 as these financial statements were incomplete. These requests and reminders were not responded and adhered to respectively.

I also conducted an Internal Control Review on the Bureau and the results of my findings were reported to the Management. However, the Management had not responded to my findings at the time of preparing this report. As a result, this report when concluded will be included in my next report.

## **31. NATIONAL RESEARCH INSTITUTE**

### **31.1 INTRODUCTION**

#### **31.1.1 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 'Papua New Guinea Institute of Applied Social & Economic Research' to 'National Research Institute' following the approval of the National Executive Council 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 Papua New Guinea 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.

#### **31.1.2 Functions of the Institute**

The functions of the Institute include the promotion of research into Papua New Guinea society and economy; the undertaking of research into social, political and economic problems of Papua New Guinea 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 Papua New Guinea Studies; and research into all aspects of education for National and Provincial Departments of Education.

### **31.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **31.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)* on the financial statements for the year ended 31 December, 2009 was issued on 28 March, 2011. The report did not contain any qualification, but had the following comment in relation to other matter.

#### **OTHER MATTER**

##### **1. Title Deeds to Leasehold Land**

The Institute did not have title deeds for three (3) properties located at section 482 allotment 61, section 482 allotment 62 and section 484 allotment 35. These three properties were registered under Mimino & Associates and not under the Institute's name.

### **31.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements for the year ended 31 December, 2010 had been submitted and arrangements were being made to commence the audit shortly.



## **32. NATIONAL ROAD SAFETY COUNCIL**

### **32.1 INTRODUCTION**

#### **32.1.1 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.

#### **32.1.2 Functions of the Council**

The principal functions of the Council are:

- (a) to determine the goals and objectives in the promotion of road safety in Papua New Guinea;
- (b) to 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;
- (c) to recommend to appropriate authorities the adoption of precautionary measures of all kinds calculated to prevent accidents involving the use of motor vehicles;
- (d) to foster, promote and conduct educational campaigns designed to stimulate compliance with acceptable and proven principles of road safety;
- (e) to 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;
- (f) to procure sufficient personnel and finance for purposes of the Council and to co-ordinate and control their use;
- (g) to foster and promote road safety research;
- (h) to determine measures which will lead to the improvement of road safety and implementation of such measures;
- (i) to monitor and evaluate the effectiveness of programs and strategies of organizations involved in the promotion of road safety;
- (j) to formulate, monitor and update an appropriate long term national programme for the improvement of road safety in Papua New Guinea and to supervise its implementation;
- (k) to consider and implement any other aspects of road safety as may be referred to it from time to time;
- (l) to perform such other functions as are given to it under this Act or any other law;

- (m) to advise the Minister and the National Executive Council on all or any of its functions specified in this section; and
- (n) generally to do all such things as may be incidental or consequential upon the exercise of its powers and the performance of its functions.

### **32.2 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 Council for the year ended 31 December, 2009 had been completed and the results were being evaluated.

The Council had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.

### **33. NATIONAL ROADS AUTHORITY**

#### **33.1 INTRODUCTION**

##### **33.1.1 Legislation**

The National Roads Authority which was established by the *National Roads Authority Act, 2003*, and came into operation in 2004.

##### **33.1.2 Objectives of the Authority**

The objectives of the Authority are:

- (a) to raise funds for the maintenance of public roads;
- (b) to ensure the efficient preparation of effective annual road maintenance programmes; and
- (c) to 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 Papua New Guinea.

##### **33.1.3 Functions of the Authority**

The functions of the Authority are:

- (a) to establish and operate a Road Fund from road user charges, budget and other sources;
- (b) to establish resources and an organization to enable the Authority to perform its functions;
- (c) to maintain and manage updated data on asset conditions using the Road Asset Management System, Bridge Inventory and Bridge Maintenance and other approved systems;
- (d) to 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;
- (e) to establish annual road maintenance funding requirements in accordance with the future annual road maintenance plans;
- (f) to determine and implement road user charges in accordance with the financial resource requirements of the annual road maintenance plans;

- (g) to deliver the required routine, specific and emergency road maintenance in accordance with the maintenance service levels established for each class or type of road, through the contracting of independent contractors, and to monitor and supervise the contracts as they are executed;
- (h) to deliver road improvement, and road restoration when required, by undertaking the design studies necessary for the programmed road improvement or rehabilitation projects:
  - (i) by preparing corresponding construction plans, specifications, cost estimates, and the other documents required for the proper tendering of the programmed works;
  - (ii) by monitoring and supervising the works as are executed, by such qualified consultants and/or contractors as are engaged; and
  - (iii) by ensuring safety audits on design, construction, maintenance and safety aspects of road; and
- (i) to 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;
- (j) to 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;
- (k) to 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;
- (l) to report publicly and transparently on collection of user charges, revenues, and in detail on the use of the revenues on the road maintenance programmes in accordance with internationally accepted accounting principles;
- (m) to establish environmental management capacity;
- (n) to provide a continuing programme of professional staff development and required skills training for non-professional staff; and
- (o) to construct, erect or affix signs or marks on road transport infrastructure in accordance with the *Motor Traffic Act (Chapter 243)*.

## 33.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 33.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements of the Authority for the years ended 31 December, 2008 and 2009 respectively were issued on 26 April, 2011. The 2008 and 2009 reports contained similar Qualified Audit Opinions, hence, only the 2009 report is reproduced as follows:

#### “BASIS FOR QUALIFIED AUDIT OPINION

##### **Fuel Levy – K15,611,781**

Fuel levy was stated as K15,611,781 in the financial statements. However, the Authority did not confirm and verify the reconciliations prepared by the Internal Revenue Commission to ensure that the account balance was correct and complete. Further, I was not provided sufficient evidence that reconciliations were done on the levy collections as the IRC records were not vouched to the source documents relating to litres of fuel imported/consumed and the rates applied. Consequently, I was unable to verify the validity, correctness and the completeness of the fuel levies account of K15,611,781 disclosed for the year ended 31 December, 2009.

#### **QUALIFIED AUDIT OPINION**

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

- a) the financial statements of the National Roads Authority give a true and fair view of the financial position and the results of the 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 acceptable accounting practices.

#### **OTHER MATTERS**

In accordance with the *Audit Act, 1989 (as amended)*, I have a duty to report on significant matters arising out of the financial statements, to which the report relates. I draw attention to the following issues;

##### **1.0 Cash & Bank Balances**

The bank reconciliations for the BSP Operating Account and the Road Fund Account were performed only at the year end. The Authority did not adhere to proper internal control procedures regarding cash at bank and as a consequence the lack of control over the reconciliation process may result in opportunities for embezzlements, fraud and improper use of limited public funds.

## **2.0 Payments not Properly Authorized**

In my review, I noted that payments totaling to K120,932 were not properly authorized by the appropriate financial delegates of the Authority as is required by the *Public Finances (Management) Act, 1995*.

## **3.0 Acquittal of Advances**

I was not able to verify the completeness of the advance acquittals totaling K141,856 as no Advance Register was provided for my review and audit.”

## **33.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December, 2010 had been completed and the results were being evaluated.

## **34. NATIONAL TRAINING COUNCIL**

### **34.1 INTRODUCTION**

#### **34.1.1 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.

#### **34.1.2 The 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; to 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; to make the benefits of training as widely as possible; to plan and encourage the development of a system of training fitted to the requirements of the country and its people; to establish, preserve and improve standards of training throughout the country; to 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 to generally augment and support the role and functions of the Commission for Higher Education as specified in the *Higher Education Act (Chapter 397)*.

#### **34.1.3 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 National Executive Council, 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.

### **34.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **34.2.1 Audit Observations Reported to the Ministers**

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the internal controls of the National Training Council for the year ended 31 December, 2010 as an alternative to a proper financial statements audit was issued on 30 June, 2011.

This report contained the following internal control weaknesses;

## **1. CORPORATE GOVERNANCE**

### **1.1 Corporate Plan**

The National Training Council did not have a Corporate Plan or Management Plan in place for 2009 and 2010. Lack of such Plan could lead to inefficient and ineffective service delivery, which could mean that the stakeholders' and the community's needs may not be met. It is a good practice for organisations to develop Corporate Plans so that they can set targets and performance indicators, monitor achievements and take corrective action.

I recommended Management to develop a Corporate Plan to monitor and evaluate its performance on a regular basis.

Management responded that the Corporate Plan was under review at the time of audit.

### **1.2 Internal Audit**

Internal audit is a key source of independent and objective assurance services provided within the organisation's internal control and risk framework. It can play an important role in assessing the adequacy of processes that underpin the organisation's financial statements.

The National Training Council did not have an internal audit function. Consequently, this important component of corporate governance was lacking.

I recommended the Council to establish an internal audit function and management agreed to establish this under the new structure.

## **2. COMPLIANCE WITH LEGISLATION AND REPORTING**

### **2.1 Reports to the Minister**

The *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act, 1995* require all public bodies to prepare and submit their financial statements to the Minister and the Auditor-General prior to 30 June each year. This report should be reproduced for publication and the report of the Auditor-General should be included in the reproduction. Although the Training Council had prepared these reports, the statements enclosed were unaudited as a result of no proper management accounting system in place.

### **2.2 Preparation of Financial Statements**

There was no proper management accounting system in place for the systematic preparation of financial statements. The accounts were summarized manually in a spreadsheet without any general ledger or trial balance.



I reviewed the *Public Finances (Management) Act, 1995* and the related *Finance Instructions 2/2004* – Financial Statement Format for Trading and Non-Trading Public Bodies. Based on the review, it was concluded that the Council belongs to a group of Authorities called ‘non-trading’ and is required to prepare its statements on a cash basis.

I recommended that in view of the sensitive nature of the work that the National Training Council is meant to undertake and its possible impact on Scholarships and private institutions providing training, it is extremely important that this agency is fully made accountable to the Parliament for its activities and management of its revenue, expenditure and assets.

The Management concurred with my comments and further stated that they would establish the correct format and prepare accounts accordingly using this format.

### **3. HUMAN RESOURCES MANAGEMENT AND PAYROLL**

The Human Resource Management processes includes day to day management and administration of employee entitlements and payroll functions. The salaries and wages costs are one of the largest items of expenditure at the National Training Council.

The Human Resource Management function at the Training Council has failed to accurately capture and process employee data and related payments. As a result, I could not verify the validity and the accuracy of their salaries calculations and allowances due to lack of salary history cards and recreation leave cards. Also some staff names that appeared on the undated staff establishment register did not correspond with the payroll names or on the daily attendance register. Further, the Information Technology Division of the Department of Finance processes the payroll centrally, it is the responsibility of the Director to ensure that the total staff on strength does not exceed the approved staff ceiling, the payment of salaries is not made to persons who have resigned or are absent from duty without approval and that payroll expenditure is reconciled monthly with individual payments made to the staff engaged by them. There was no certification of payroll done by division heads for employees in their sections.

I recommended Management to ensure that those costs were carefully controlled and monitored and that those responsible for payroll function had the necessary skills and knowledge to effectively execute their function. I further recommended that Divisional Heads should certify the payroll in respect to their Division and that to the best of their knowledge the personnel being paid are eligible for payment.

Management concurred with my comments and agreed to institute control procedures.

#### **4. PROCUREMENT AND PAYMENTS**

Strong controls over purchases and payments will ensure that the quality of goods and services purchased are acceptable and that these goods are actually received and in good order. Controls including the reconciliation processes, segregation of duties, appropriate delegations provide an efficient means of ensuring that payments are valid and accurately recorded and that funds are not mismanaged or subject to material fraud.

There were no policies and procedures in place as the Training Council were procuring goods and services at the discretion of the purchasing officer. There was no proper documentation or records kept by the Training Council resulting in payment vouchers not recorded in the excel spreadsheet used by the Council.

I recommended that the Training Council establish policies and procedures and install management information systems. Also the Training Council adequately fill the Accounts Section with experienced and qualified personnel to carry out its duties.

Management concurred with my comments and added that steps were being taken to install work processes.

#### **5. RECORDING OF INCOME**

Receipts by way of Government Grants or donations must be captured by proper book keeping to assist in the preparation of financial statements. There were no receipts written for the revenue grants received and deposited. Journal entries were not raised for cancelled cheques. In addition, no reconciliation of income was done between the cash book and the general ledger (excel spreadsheet) at year end as well as the cash collected through direct deposits by private institutions and bank statement. Lack of written receipts and proper reconciliations pose a risk of money being misused.

I recommended that the Council liaise with the Department of Finance to obtain official receipt and journal entry books for the purpose of writing receipts for the revenue received and to properly raise journal entries for cheques cancelled to be written back to the cashbook.

Management took note of my comments and agreed to take necessary action.

#### **6. ASSET MANAGEMENT**

National Training Council did not have a proper updated Asset Register in place to record all new purchases made and record the state, location and condition of each asset owned by the Training Council. Further, no stock take was conducted to determine the condition and existence of each asset.

I recommended management that a reliable asset register that maintains adequate information about assets acquired and disposed off, depreciation schedule, asset reconciliations and periodical stock takes were prerequisite for an effective management.

The management concurred with my comments and agreed to institute necessary control measures.

### **34.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Council had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.

## **35. NATIONAL VOLUNTEER SERVICE**

### **35.1 INTRODUCTION**

#### **35.1.1 Legislation**

The National Volunteer Service was established on 12 April, 1990 under the *National Volunteer Service Act, 1990*.

#### **35.1.2 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 Papua New Guinea; 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 Papua New Guinea, in achieving their plans and purposes; and to encourage and participate generally in the advancement of the development of Papua New Guinea.

### **35.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Service had not submitted its financial statements for the years ended 31 December, 2007, 2008, 2009 and 2010 for my inspection and audit despite my repeated reminders to have them submitted.

## **36. NATIONAL YOUTH COMMISSION**

### **36.1 INTRODUCTION**

#### **36.1.1 Legislation**

The National Youth Commission was established under the *National Youth Service Act, 1991*. This Act came into operation on 3 July, 1991.

#### **36.1.2 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; to provide opportunities to enable youths to participate meaningfully in community activities; to promote self-reliance among youths and to discourage dependability on outside assistance; to 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; to assist and encourage youths to improve their education, and attain competency in numerical and communication skills; to provide the means for tertiary students to enter into the Service; to promote and maintain amongst youths acceptable social norms and values; and generally to do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

### **36.2 AUDIT OBSERVATIONS**

#### **36.2.1 Comments on the Financial Statements**

My report to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Commission for the year ended 31 December, 2009 was issued on June 30, 2011. The report contained a Qualified Audit Opinion.

#### **“BASIS FOR QUALIFIED AUDIT OPINION**

##### **1. Internal Control**

During my review, I noted that the Commission’s overall internal control environment was weak. The Commission had not implemented segregation of duties within its Accounting and Finance division. The staff employed by the Commission both permanent and casual lacked necessary skills and qualifications to undertake the tasks allocated to them.

##### **2. Travel Expenses**

The Commission incurred K573,179 on travel and subsistence for the year ended 31 December, 2009. I noted that it did not maintain adequate documentation to support this balance and the travel advances were not acquitted on a timely basis.

### 3. Salary Advances

Salary advances was stated in the financial statements as K50,890 at the year end. I was not provided with adequate documentation to support the account balance. As a result, I was unable to comment on the accuracy of the amount stated at the year end.

### QUALIFIED AUDIT OPINION

In my opinion, except for the issues discussed in the basis for qualified opinion paragraphs:

- (a) the financial statements of the Commission are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Commission as at 31 December, 2009 and the results of its financial operations for the year then ended.”

### OTHER MATTERS

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

#### Non Compliance with *National Youth Commission Act, 1999*

The Commission did not have an Interim Council during the year 2009 and consequently breached the *Section 79(1)* of the *National Youth Commission Act, 1999*.

#### Non Compliance with *Public Finances (Management) Act, 1995*

The Commission had not submitted its financial statements on a timely basis to enable me to carry out the audit of the Commission within the time frame stipulated in the Act. As a consequence, it has breached the *Section 63(2)* of the Act.

### 36.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Commission for the year ended 31 December, 2010 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

## **37. OIL PALM INDUSTRY CORPORATION**

### **37.1 INTRODUCTION**

#### **37.1.1 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.

#### **37.1.2 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.

### **37.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December, 2008 was completed and the results were being evaluated.

The Corporation did not submit its financial statements for the years ended 31 December, 2009 and 2010 for my inspection and audit. I reminded the Corporation of its responsibility to submit the financial statements on a timely basis to my Office under *Public Finances (Management) Act*.

## **38. OMBUDSMAN COMMISSION OF PAPUA NEW GUINEA**

### **38.1 INTRODUCTION**

#### **38.1.1 Legislation**

The Ombudsman Commission was established under the provisions of the Constitution of the Independent State of Papua New Guinea. 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.

#### **38.1.2 Functions of the Commission**

The functions of the Commission are:

- (a) 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;
- (b) to investigate any defects in any law or administrative practice appearing from any such investigation;
- (c) to investigate any case of an alleged or suspected discriminatory practice within the meaning of a law prohibiting such practices; and
- (d) any functions conferred upon it by *Part III Division 2 (Leadership Code)* of the National Constitution.

### **38.2 AUDIT OBSERVATIONS**

#### **38.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the Commission's financial statements for the year ended 31 December, 2010 was issued on 5 May, 2011. The report did not contain any qualification but contained the following comment:



## OTHER MATTER

In accordance with the *Audit Act, 1989 (as amended)*, I have a duty to report on a significant matter arising out of the financial statements, to which the report relates. I wish to draw attention to *Note 2.0* to the receipts and payments statement on *Grants and Other Assistance (Payments by External Third Parties)*.

The Commission received a total of K432,625 from Australian Development Assistance (AusAid) for the year in respect of the Law and Justice Sector Project and spent K401,871 within the set guidelines of the Annual Program Plan (APP) which is outside the Commission's normal business operations and is not subject to audit by me. The Commission is under an obligation to ensure full accountability of the funds expended and the Program is subject to annual audit by the Program auditors."

## **39. PAPUA NEW GUINEA FOREST AUTHORITY**

### **39.1 INTRODUCTION**

#### **39.1.1 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:

- the 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;
- the maximization of Papua New Guinea's participation in the wise use and development of the forest resources as a renewable asset;
- the utilization of the Nation's forest resources to achieve economic growth, employment creation and increased "downstream" processing of the forest resources;
- the encouragement of scientific study and research into forest resources so as to contribute towards a sound ecological balance, consistent with the national development objectives;
- the increased acquisition and dissemination of skills, knowledge and information in forestry through education and training; and
- the 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)*.

#### **39.1.2 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;

- to prepare and review the National Forest Plan and recommend it to the National Executive Council for approval;
- through the Managing Director, to direct and supervise the National Forest Service;
- to negotiate Forest Management Agreements;
- to 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*;
- to 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;
- to oversee the administration and enforcement of the *Forestry Act* and any other legislation pertaining to forestry matters, and of such forestry policy as is approved by the National Executive Council;
- to undertake the evaluation and registration of persons desiring to participate in any aspect of the forestry industry;
- to act as agent for the State, as required, in relation to any international agreement relating to forestry matters; and
- to carry out such other functions necessary to achieve its objectives or given to it under the Act or other relevant law.

## **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, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2007 was issued on 20 January, 2011. The report contained a Disclaimer of Opinion.

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **1. Limitation of Scope regarding Opening Balances**

My report on the financial statements of Papua New Guinea Forest Authority for the year ended 31 December, 2006 was a disclaimer of opinion in respect of limitation of scope with regard to fixed assets, Government equity adjustments, cash at bank, interest bearing deposits, sundry debtors & prepayments.

I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the opening balances that would have had a consequential effect on the financial statements for the year ended 31 December, 2007. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have a bearing on the balances reported in the financial statements for the year ended 31 December, 2007.

## **2. Limitation on the Scope of Audit**

The Authority did not maintain proper accounting records and relevant documents in support of the account balances reflected in the financial statements. Further, the Authority did not prepare regular reconciliations particularly in respect of bank accounts maintained at its Provincial Offices and of its huge investments in Interest Bearing Deposits. As a result, I was unable to execute the necessary audit procedures nor was I able to verify the completeness and accuracy of the account balances by alternate means.

## **3. Fixed Assets – K33,761,159**

Fixed assets were disclosed in the financial statements at a carrying value of K33,761,159 as at 31 December, 2007. Due to the poor state of the records of the Authority, I was unable to verify if assets such as land and buildings with carrying value of K25,150,847 were not materially impaired and were carried at recoverable amounts. This includes K25,350,821 worth of assets taken over from the previous organisations at the formation of the Authority. I was also unable to verify the existence, validity and valuation of the fixed assets as the Authority did not maintain a comprehensive fixed assets register in terms of having value, quantity, age, condition and locations of each asset. Accordingly, I was unable to ascertain the existence and validity of the fixed assets at year end.

## **4. Suspense Account Balance K7,458,716 and Debit Adjustments of K5,653,698**

As disclosed in Notes 13 and 14 of the financial statements, the Authority changed its accounting software from Accpac to Attaché in 2001. Lack of proper migration of accounts from the old system to the new system resulted in a difference of K13,112,414 of which K5,653,698 was charged against accumulated Government Equity and K7,458,716 remained as a balancing figure in the balance sheet. Due to supporting documentation or records not being provided, I was unable to verify the completeness and validity of the charge to the Government Equity and the Suspense Account balance.

## **5. GST Suspense Account Balance of K881,873**

The GST suspense account was being disputed as Internal Revenue Commission (IRC) was unable to refund the amount. The Commission was claiming that the Authority was a Statutory Body and it was not entitled to any GST claim. I was not provided with any relevant documentation to ascertain the validity of the balance and to assess whether it was recoverable from the Commission.

## **6. Royalty Trust Fund – K11,349,545 and Reforestation Levy Trust – K13,271,451**

The following significant inherent risks, control deficiencies and accounting issues were noted in relation to Landowner Royalty Trust Fund and the Reforestation Levy Trust Fund;

- The Authority had not submitted monthly statements and summaries of accounts to Department of Finance within seven (7) days from the end of each month in compliance with the Trust Deed Instrument;
- Monthly returns submitted from each province contained no evidence of cross-checking to ensure records were correct and accurate;
- The reforestation levies from the provinces have been deposited by the logging companies directly into the Authority's accounts. In the absence of any records of these direct deposits, the Authority had not been able to identify, verify and reconcile such deposits;
- The Authority's deposits into Interest Bearing Accounts were not linked to their sources. I was not provided with any breakup or schedules showing the break-up of the Interest Bearing Deposit funds into the Product Development Levy (PDL) and PNG Forest Authority (PNGFA);
- Review of royalty payments revealed that some landowners had "x" marked as evidence of receipt of payments. In the absence of other forms of landowner identification, I was unable to confirm the existence, genuineness and rightfulness of the recipients of the royalty payments;
- I was unable to perform alternative procedures to verify the accuracy of the basis of the royalty determined as the actual log scaling sheets were maintained at the provincial sites by the Provincial Forest Officers. As a result, I could not confirm if the royalties determined and paid were based on the actual logs harvested.

As a result of the above issues, I was unable to ascertain the completeness, validity and accuracy of the Royalty Trust Fund and Reforestation Levy Trust Fund balances at year end.

## **7. Other PNGFA Plantation Royalty K7,812,771**

Included in the other PNGFA Plantation Royalty funds were extra Interest Bearing Deposit (IBD) funds of K5,024,871, which upon fully reconciling with the trust funds as at 31 December, 2007 classified by management as surplus IBDs which were allocated as to Authority's other funds. In the absence of proper reconciliation and supporting schedule and the Authority's inability to trace the Interest Bearing Deposit (IBD) deposits to the sources, I could not ascertain the propriety, completeness and validity of the balance at the year end.

**8. Other Income – K7,791,979**

As disclosed in Note 12(a) of the financial statements the Authority included other income of K3,526,354 as part of its total income. I was unable to verify the amount due to lack of supporting audit evidence. Accordingly, I was unable to ascertain the completeness and validity of this balance.

**DISCLAIMER OF AUDIT OPINION**

As a result of the significance of the matters discussed in the preceding paragraphs, I was unable to and could not form an opinion as to whether the financial statements comply with generally accepted accounting practice, or give a true and fair view of the state of the Authority's affairs as at 31 December, 2007 and the results of its operations and cash flows from the year then ended.

In addition, I had not obtained all the information and explanations that I considered necessary for the purpose of my audit; and

I was unable to satisfy myself as to the completeness and accuracy of the accounting records kept."

**39.2.2 Audit Observations Reported to the Ministers**

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Authority for the year ended 31 December, 2007 was issued on 20 January, 2011. The report contained the following observations:

**1. SUSPENSE ACCOUNT**

The financial statements since 2001 had disclosed a suspense account balance in the balance sheet each year up to 2004. The PNGFA Board resolved to leave the balance unchanged from 2005 to 2007 when the treatment of the balance was to be reviewed.

The balance carried forward for years was due to the change in accounting system, improper migration of data and poor interfacing which contributed to the difference in the trust account balance.

**2. BANK RECONCILIATION AND CASH**

The Bank reconciliations for the year ended 31 December, 2007 provided for audit verification were done in June 2008. During my examination, I noted that bank reconciliations were not prepared for 14 (dormant) bank accounts which represented 6% of the total cash amount at the year end. Further, significant amount of cash journal entries were passed at the year end, upon engagement of a consultant to assist in preparation of the accounts for the year ended 31 December, 2007.

I recommended the accounts department to continue maintaining the bank reconciliations for the main accounts and to prepare bank reconciliations for all bank accounts regardless of each account's status.

*The Authority commented that the Finance Branch was committed to undertaking monthly bank reconciliations and had implemented new procedures and processes to support monthly bank reconciliations. Further, a Bank Account Register has been prepared and would be used to monitor and report on progress each month.*

### **3. FIXED ASSETS**

I noted that two sets of fixed assets registers (FARs) were maintained separately by the services department and the accounts department of the Authority. The FAR maintained by the accounts department was for depreciation and accounting purposes, while the register maintained by the services department was for monitoring and controlling purposes. I noted that the FAR maintained by the services department did not capture all the assets and there was no reconciliation of it with the FAR maintained by the accounts department. Neither of the FARs could therefore be accepted as the accurate record of the fixed assets.

The depreciation schedule provided by the accounts department was not satisfactory in the following respects:

- There were instances where proper codes were not allocated to fixed assets;
- Locations for many of the assets as given in the FARs are vague, making identification of assets by location impossible; and
- There was no indication of the existence of some assets and the FARs do not provide sufficient details on the custody of them to track usage and safe keeping.

I recommended the Authority:

- To ensure that there was adequate communication and information flows between the accounts department and the services department in respect of the Fixed Assets Register;
- To carry out a 100% physical verification exercise to ascertain the existence and ownership of all its assets and to update the FARs to reflect the correct assets owned by PNGFA; and
- To develop a policy on proper custody and management, and the accounting and disclosure of fixed assets.

The Authority responded to my observation as follows:

*"PNGFA is committed to improvements in this area. The Managing Director has approved the use of the Attaché Asset module as the single asset register with both Finance and Services working to ensure its accuracy and integrity. As part of the asset management reform PNGFA will be implementing physical verifications at all locations. The working party will also be engaging an independent valuer to assist with stocktaking and perform a formal valuation."*

### **39.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Authority for the years ended 31 December, 2008, 2009 and 2010 were not submitted for my inspection and audit. On numerous occasions, I have followed up with the Authority to submit the financial statements to enable me to bring these audits up to date. However, the Authority failed to respond to my request.



## **40. PAPUA NEW GUINEA INSTITUTE OF MEDICAL RESEARCH**

### **40.1 INTRODUCTION**

#### **40.1.1 Legislation**

The Papua New Guinea Institute of Medical Research was established by the *Institute of Medical Research Act (Chapter 166)* on 1 January, 1980.

#### **40.1.2 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 Papua New Guinea.

### **40.2 AUDIT OBSERVATIONS**

#### **40.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the Institute's financial statements for the years ended 31 December, 2007 and 2008 were both issued on 13 December, 2010. These reports contained similar qualifications, hence only the 2008 report is reproduced as follows:

#### **“BASIS FOR DISCLAIMER OF AUDIT OPINION**

##### **1. Bank Accounts**

The Institute maintained twenty-eight (28) bank accounts and three (3) fixed term deposit accounts amounting to K4,483,745. My examination revealed that proper records were not maintained in relation to these bank accounts. Further, the bank reconciliations of these accounts were not prepared in a proper and timely manner. The Accpac Accounting software used to perform the bank reconciliation had not carried forward the closing balance to the next month to begin with the correct opening balance. Further, only one data entry clerk was responsible for all twenty-eight (28) bank accounts from data entry to bank reconciliations and no independent verification was performed by any senior officer certifying the reconciliations as correct. As a result, I was unable to place reliance on the control over twenty-eight (28) bank accounts and three (3) fixed term deposit accounts maintained by the Institute. Consequently, I was unable to state whether or not bank balances had been fairly stated in the accounts.

##### **2. Accounting System**

The Institute used Accpac Accounting system to maintain financial records and to prepare its financial statements. The accounting package used by the Institute was not properly configured to distinguish between receipt and payment items and balance sheet items.

As a result, some of the receipts and payments were erroneously classified as balance sheet items and consequently, these account balances were rolled over as carried forward balances resulting in material variances in both debit and credit account balances. During my examination, I noted a variance of K4.8 million between the schedule provided for verification and the trial balance. Because of the above major control weakness, I was unable to satisfy myself as to the control environment surrounding the use of accounting system and accuracy and completeness of accounting records provided by the present system.

### **3. Investments – K176,514**

Note 11 to the financial statements disclosed interest bearing deposit investment as K176,514. The interest bearing deposit amount comprised of K46,415 with Bank of South Pacific and K130,000 with ANZ Bank. I was not provided with registers, bank audit certificates and other relevant supporting documents for my examination. Consequently, I was unable to establish whether the account was fairly stated at the year end.

### **DISCLAIMER OF OPINION**

Because of the significance of the matters referred to in the preceding paragraphs, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I was not in a position to, and do not express an opinion on the financial statements of PNG Institute of Medical Research for the year ended 31 December, 2008.

### **OTHER MATTERS**

The Institute had not submitted its financial statements for the year ended 31 December, 2008 on a timely basis 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 Institute had breached Section 63(2) and 63(4) of the *Public Finance (Management) Act, 1995*.”

### **40.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Institute for the years ended 31 December, 2009 and 2010 were not submitted by the Institute for my inspection and audit.

## **41. PAPUA NEW GUINEA INSTITUTE OF PUBLIC ADMINISTRATION**

### **41.1 INTRODUCTION**

#### **41.1.1 Legislation**

The Papua New Guinea Institute of Public Administration was established in 1993 under the *Papua New Guinea Institute of Public Administration Act, 1993*.

#### **41.1.2 Functions of the Institute**

The functions of the Institute are to plan, organize, conduct and assess a wide range of practices and relevant training programmes and, if applicable, in the South Pacific Region and to undertake relevant research and consultancies on issues and problems of management and administration and to act as a centre for collection, storage, retrieval and dissemination of information.

### **41.2 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 Institute for the year ended 31 December, 2010 was substantially completed and the results were being evaluated.

## **42. PAPUA NEW GUINEA MARITIME COLLEGE**

### **42.1 INTRODUCTION**

#### **42.1.1 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 Papua New Guinea Maritime College and *Papua New Guinea Maritime College Act*, respectively.

#### **42.1.2 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.

### **42.2 AUDIT OBSERVATIONS**

#### **42.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the financial statements of the College for the year ended 31 December, 2007 was issued on 28 March, 2011. The report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Title to Off-Campus Properties**

The College has not provided Certificate of Title of nine (9) of its properties recorded in the Fixed Asset Register. My verification revealed that these properties were not registered with the Department of Lands & Physical Planning. As a result, I was unable to ascertain the ownership, validity and accuracy of the Fixed Assets balance as disclosed in the financial statements.

##### **Limitation of Scope in Levy Collection**

In note 2 to the financial statements, Revenue from Levies that were collected from shipping companies under the *PNG Maritime College Act* and the *Merchant Shipping Act* were stated at K57,664 (2006 – K95,556). This amount reduced by 40% compared to last year. The College did not maintain a complete register for levies collected from all registered shipping companies operating in the territorial water of Papua New Guinea. In the absence of a complete and comprehensive register of levies collected and accurate information from the National Maritime Safety Authority and the Department of Transport’s Maritime Division, I was unable to satisfy myself as to the occurrence, accuracy and completeness of the Revenue stated in the financial statements for the year ended 31 December, 2007.

## **QUALIFIED AUDIT 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 College for the year ended 31 December, 2007 and the results of its financial operations and cash flows for the year then ended.”

## **OTHER MATTER**

### **Submission of Financial Statements**

The College has not prepared and submitted its financial statements to my Office before 31 March, 2008 to enable me to complete the audit on time for tabling the report in the Parliament by the College before 30 June, 2008. Consequently, the College has breached *Section 63(2)* and *63(4)* of the *Public Finances (Management) Act, 1995*.

## **42.3 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 College for the year ended 31 December, 2008 was completed and the results were being evaluated.

The College had not submitted its financial statements for the year ended 31 December, 2009 and 2010 for my inspection and audit. I reminded the College of its responsibility to submit the financial statements for the above years.

## **43. PAPUA NEW GUINEA NATIONAL INSTITUTE OF STANDARDS AND INDUSTRIAL TECHNOLOGY**

### **43.1 INTRODUCTION**

#### **43.1.1 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 Papua New Guinea 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.

#### **43.1.2 Functions of the Institute**

The main functions of the Institute are: to safeguard Papua New Guinea against the dumping and supply of unsafe, unhealthy and inferior or substandard products; to establish and co-ordinate the National Standardisation system; to provide education, training and industrial extension and consultative services to assist industries; to promote public and industrial welfare, health and safety; to recognise as testing authorities, bodies and institutions; to establish a National Certification System of conformity; to assist industries overcome technical barriers on its products and services to international trade; and to assist industries to produce quality products and services.

### **43.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **43.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the Institute's financial statements for the year ended 31 December, 2009 was issued on 23 June, 2011. The report did not contain any qualification.

#### **OTHER MATTERS**

In accordance with the *Audit Act, 1989 (as amended)*, I have a duty to report on any significant matter arising out of the financial statements to which this report relates. The following were matters of significance;

- As per the *NISIT Act, 1993, Section 7*, “*there shall be a National Institute of Standards and Industrial Technology Council which shall carry out the functions and objectives, manage the affairs and exercise the powers of the Institute*”. To date, NISIT does not have a Council in place to perform its responsibilities conferred upon it by the Minister; and
- NISIT had been without a Director General since the appointee passed away in July, 2008. An officer in charge of the Institute had been overseeing the operations of the Institute although his appointment period had already lapsed.

#### **43.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Institute had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.

#### **44. PAPUA NEW GUINEA RADIO COMMUNICATIONS AND TELECOMMUNICATIONS TECHNICAL AUTHORITY (PANGTEL)**

##### **44.1 INTRODUCTION**

###### **44.1.1 Legislation and Objectives of Pangtel**

The Papua New Guinea Radio Communications and Telecommunication Technical Authority (PANGTEL) was established on 1 January, 1997 by the *Telecommunications Act, 1996*. Its creation was part of the Government's policy to corporatise Post and Telecommunication Corporation (PTC) and to have it divided into three (3) different organisations namely Telikom PNG Limited, Post PNG Limited, and Pangtel. Pangtel, which is a 100% Government-owned statutory authority, was established to regulate the telecommunication industry in Papua New Guinea.

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.

###### **44.1.2 Functions of Pangtel**

The main functions include:

- Granting of licences to carriers and suppliers of telecommunication services and equipment;
- Monitoring of practices of licences;
- Regulation of telecommunications industry to ensure competitiveness;
- Protection of fairness and efficiency in the industry;
- Providing arbitration to conflicting parties in the industry;
- Administration of rural telecommunication projects; and
- Monitoring of pricing of telecommunication services.

##### **44.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

###### **44.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the financial statements of the Authority for the year ended 31 December, 2009 was issued on 20 June, 2011. The report contained a Disclaimer of Opinion:



## **“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 previous audit reports. As a result of the limitations, I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the account balances as at 31 December, 2009.

### **Income - K19,973,855 and Expenses - K14,972,387**

There were a number of significant income and expenditure items where I couldn't obtain adequate supporting documentation to substantiate balances recorded in the financial statements. Accordingly, my normal audit testing procedures could not be performed due to inadequate records and information provided.

### **Trade and Other Debtors - K3,608,095**

No supporting documentation or reconciliations were provided in relation to provision for doubtful debts, other debtors and prepayments. It was therefore impractical to extend my audit procedures to verify the accuracy of the balances recorded in the financial statements.

### **Sundry Creditors - K2,023,589**

I was unable to reconcile and agree creditors balances to supporting documentation recorded in the financial statements. Reconciliation of creditors balances were not performed on a regular basis, resulting in misstatement of balances recorded in the financial statements.

### **Fixed Assets - K24,359,744**

No evidence of periodic checks conducted was provided to verify the existence, movements, possession, depreciation or condition of the assets listed in the fixed assets register. Accordingly, I was unable to verify the valuation of fixed assets as recorded in the financial statements.

### **Fixed Assets Revaluation Reserve - K18,677,117**

No substantiation or documentation could be provided to support the balance of assets revaluation reserve included in the financial statements.

### **Cash Balance - K15,555,151**

I was unable to obtain confirmation of bank balances and supporting documentation for all adjustments made. Due to the unavailability of relevant supporting documentation and records, I was unable to state whether balances included in the financial statements were free of material misstatements.

### **Employee Provisions - K4,145,713**

I was unable to substantiate the above balances as adequate provision for employees due to inadequate audit information and records provided.

### **DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of the Papua New Guinea Radio Communications and Telecommunications Technical Authority for the year ended 31 December, 2009.

### **OTHER MATTERS**

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

- **Internal Controls, Accounting Provisions and Procedures**

During the course of my audit, I have identified significant weaknesses in the Authority's financial processes, procedures and internal controls in all facets of the accounting system and the overall internal control environment operating during the period under review. I noted that there was a lack of control to capture and record all transactions and produce accounts that were reliable, complete and accurate. The internal controls were not effective and could not be relied upon to protect and safeguard the assets of the entity. As a result, I was not able to place any reliance on the financial and other records."

### **44.3 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 period ended 29 October, 2010 was in progress.

On 29 October, 2010, National Information and Communication Technology Authority (NICTA) succeeded PANGTEL. This effectively means that my next report on PANGTEL will cover the period up to 29 October, 2010 only.

## **45. PAPUA NEW GUINEA SPORTS FOUNDATION**

### **45.1 INTRODUCTION**

#### **45.1.1 Legislation**

The Papua New Guinea Sports Foundation was established by the *Papua New Guinea Sports Foundation Act, 2005*. This Act was certified on 08 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.

#### **45.1.2 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.

#### **45.1.3 The Functions of the Foundation**

The principal functions of the Foundation are to: to advise the Minister in relation to the development of sports; to 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 Guineans; and to 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; and to 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; and to establish, manage, develop and maintain facilities for the purposes of the Foundation; and to collect and distribute information and provide advice to matters related to the activities of the Foundation; and for the purpose of 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; and to raise money through the National Sports Trust or by other means for the purposes of the Foundation; and to administer and expand money appropriated by the Parliament or raised in accordance with and for the purpose of the Foundation; and to consult and co-operate with appropriate authorities of the National Government of the Provinces and Local-Level Governments and with other persons, associations and organisations on matters related to the activities of the Foundation; and to provide advice on matters related to sports to the Papua New Guinea National Olympic Committee or other persons, bodies or associations; and to 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.

### 45.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December, 2003 to 2010 had not been submitted for my inspection and audit in spite of numerous reminders from my Office and meetings with Management. I also wish to reiterate that the Foundation had failed to comply with the provisions of *Section 63(4) of the Public Finances (Management) Act, 1995* by not submitting its financial statements on time for audit despite undertakings made by the management of the Foundation to my Office. The fact that 2003 financial statements were yet to be submitted in 2011 should be a matter of great concern.

I also conducted an Internal Control Review on the Foundation and the results of my findings were reported to the Management. However, the Management had not responded to my findings at the time of preparing this report. As a result, this report when concluded will be included in my next report.

## **46. PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY AND ITS SUBSIDIARY**

### **46.1 INTRODUCTION**

#### **46.1.1 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.

#### **46.1.2 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.

#### **46.1.3 Subsidiary**

The University has a wholly owned subsidiary Company, Unitech Development and Consultancy Company Limited, which was incorporated under the *Companies Act*.

Comments in relation to the subsidiary are contained in paragraph 47A of this Report.

### **46.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **46.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the financial statements of the University for the years ended 31 December, 2007 and 2008 were issued on 07 September, 2010 and 30 March, 2011 respectively. The reports contained Adverse Opinions, hence only 2008 report is reproduced as follows:

#### **“BASIS FOR ADVERSE OPINION**

##### **1. Limitation on the Scope of my Audit**

The University has serious deficiencies in accounting and record keeping, as evidenced by the following:

- nine (9) University bank accounts were not properly reconciled to the bank statements as at 31 December, 2008;
- no record was maintained for funds held in interest-bearing deposits (IBDs);

- accounts receivable records were not maintained for the Main Campus, Timber & Forestry Training College, Bulolo College, Lae School of Nursing and Service Units Department;
- supporting schedules were not provided for other debtors and prepayment accounts with a total balance of K799,062 at 31 December, 2008;
- no stock take was undertaken at 31 December, 2008;
- supporting documents for major fixed asset additions cannot be found; and
- supporting schedules were not available for Trade Creditors (K43,645), Contractors (K108,698), Accrued Accounting & Fees (K70,000), Customers' Deposits (K161,295), Staff Departure Deposits (K75,125) and Other Liabilities (K315,036).

The University did not maintain proper, complete and accurate ledger accounts and records of its transactions. As a result, I was not able to execute all my planned audit procedures nor was I able to satisfy myself about the account balances by alternative means.

## **2. Income and Expenditure**

Due to the absence of a fully integrated management information system, serious weaknesses and deficiencies in the present accounting system, failure to reconcile bank accounts, lack of supporting documentation for certain debtors' and creditors' balances, failure to correctly quantify receivables, fixed assets, inventories, trade and contractors' liabilities and employee provisions, I was unable to satisfy myself as to the completeness and accuracy of the total income of K58,021,116 and total expenses of K57,309,824 as disclosed in the financial statements.

## **3. Fixed Assets – K40,842,597**

The University did not maintain proper fixed assets register during the year to record the movements of assets capitalized and/or disposed off, and to monitor the existence and condition of the assets. The total costs of fixed assets per the summary provided was understated by K2,370,337 against the general ledger. As a result, I was not able to satisfy myself as to the existence and valuation of fixed assets with a carrying value of K40,842,597 as at 31 December, 2008.

## **4. Inventories – KNil**

I was unable to ascertain whether the University held any stock at its Service Departments and its Timber & Forestry Training College as no inventories were disclosed in the financial statements at the year end.

**5. Receivables – K799,062**

Receivable accounts were not set-up for the Taraka Main Campus, Department of Open & Distance Learning, Timber & Forestry Training College, Bulolo College, Lae School of Nursing and Service Units Department. Further, I was not provided with a list of students' debt accounts which were written off during the year and the supporting documentation and authorization for such write-offs. As such, I was unable to determine the completeness, validity and proper valuation of the receivables balance.

**6. Trade Creditors – K43,645**

I noted significant unrecorded liabilities at 31 December, 2008 amounting to K1,507,240. These were mostly bills for utilities and catering services for which payments were not yet processed. Due to the materiality of the amount, in my opinion the liabilities were not fairly presented in the financial statements.

**7. Employee Provisions – K6,839,415**

I noted errors in the calculations of recreational leave, long service leave and leave fares because most of the data used in the calculations were not updated. I was therefore unable to satisfy myself as to the amount of the over or understatement of employee provisions.

**8. Group Tax – KNil**

There was no group tax payable reflected in the financial statements of the University despite the knowledge of significant unremitted group tax payables. The monthly group tax summaries for 2006 to 2008 prepared by the University showed significant group tax liabilities that were not yet settled to date amounting to K7,466,038 plus what I calculated to be the previous years' group tax payable of K10,737,532.

In my opinion, by not reflecting the group tax liabilities, the financial statements were grossly misstated at 31 December, 2008.

**9. Prior Period Adjustment – K2,124,235**

During the year, there were prior period adjustments amounting to K2,124,235 which were credited into the Surplus account. I was unable to obtain justification and supporting documentation for these adjustments. I was therefore unable to satisfy myself as to the reasonableness of the Prior Period Adjustments.

**10. Grant for Infrastructure Rehabilitation**

I noted that in 2007, the Office of Higher Education had approved a grant of K19 million to the University for infrastructure rehabilitation. At 31 December, 2008 about 99% of the total project costs have been committed and the actual expenditure was at K15,402,705. None of the assets that were created under this program or the income components were taken up in the accounts. Therefore, both the assets and income of the University were understated as at 31 December, 2008.

**ADVERSE AUDIT OPINION**

In my opinion, because of the material impact on the financial statements of the matters referred to in the Basis for Adverse Opinion paragraphs, the financial statements did not give a true and fair view of the financial position of the University as at 31 December, 2008 and the results of its operations for the year then ended.

**Proper Books of Accounts not maintained**

In my opinion, the University had failed to maintain proper accounts and records in accordance with Sections 62(1) and 62(2) of the *Public Finances Management Act, 1995*.”

**46.3 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, 2009 and 2010 for my inspection and audit.



**46A. UNITECH DEVELOPMENT AND CONSULTANCY COMPANY LIMITED –  
(A SUBSIDIARY OF PNG UNIVERSITY OF TECHNOLOGY)**

**46A.1 INTRODUCTION**

Unitech Development and Consultancy Company Limited is a Company incorporated under the *Companies Act, 1997*.

**46A.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.

**46A.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, despite repeated reminders, the Company had not submitted the financial statements for the years ended 31 December, 2007, 2008, 2009 and 2010 for my inspection and audit.

## **47. PARLIAMENTARY MEMBERS' RETIREMENT BENEFITS FUND**

### **47.1 INTRODUCTION**

#### **47.1.1 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.

#### **47.1.2 Objectives of the Fund**

The objective of the Fund was to provide pensions and retirement benefits for Members and former Members of Parliament and the former House of Assembly, and to provide benefits to dependant spouses and juvenile dependants. This Act repealed the *Parliamentary Members' Retirement Benefits Act*, which came into operation in 1982.

### **47.2 AUDIT OBSERVATIONS**

#### **47.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the financial statements of the Fund for the year ended 31 December, 2009 was issued on 04 February, 2011. The report did not contain any qualification.

### **47.3 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 Fund for the year ended 31 December, 2010 was substantially completed and the results were being evaluated.

## **48. PNG WATERBOARD**

### **48.1 INTRODUCTION**

#### **48.1.1 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.

#### **48.1.2 Functions of the Waterboard**

PNG Waterboard is entrusted with co-ordinating, planning, designing, construction, management and charging for water supply and sewerage services throughout the country.

### **48.2 AUDIT OBSERVATIONS**

#### **48.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8 of the Audit Act, 1989 (as amended)*, on the Board's financial statements for the year ended 31 December, 2008 was issued on 25 May, 2011. The report contained an Emphasis of Matter as follows:

#### **“Emphasis of Matter – Revaluation of Land and Building**

Without qualifying my opinion, I draw attention to *Note 7* to the financial statements. PNG Waterboard's fixed assets net book value of K203,913,272 in the balance sheet includes land and buildings with a net book value of K9,074,009 which have not been revalued in the last six (6) years as required under *IAS 16 paragraph 34*. In the absence of regular revaluations, I cannot determine that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.”

### **48.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the Board's financial statements for the year ended 31 December, 2009 was in progress. The Board's financial statements for the year ended 31 December, 2010 had not been submitted for my inspection and audit.

## **49. PUBLIC CURATOR OF PAPUA NEW GUINEA**

### **49.1 INTRODUCTION**

#### **49.1.1 Legislation**

The Office of the Public Curator of Papua New Guinea was established under the *Public Curator Act (Chapter 81)*.

#### **49.1.2 Functions**

The main functions of the Public Curator are to act as:

- (a) an administrator of estates;
- (b) an executor appointed under a will by a member of the public; and/or
- (c) an official trustee.

### **49.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Public Curator for the years ended 31 December, 2009 and 2010 and the Internal Control Review audit for 2010 were completed and the results were being evaluated.

The Public Curator had not submitted its financial statements for the years ended 31 December, 2004 to 2008 for my inspection and audit in spite of repeated reminders and meetings between my officers and the Public Curator regarding timely submission of these statements in accordance with *Section 63(4) of the Public Finances (Management) Act, 1995*.

## **50. SECURITY INDUSTRIES AUTHORITY**

### **50.1 INTRODUCTION**

#### **50.1.1 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 from April 2005.

#### **50.1.2 Functions of the Authority**

The principal functions of the Authority are to:

- (a) grant licenses and permits under the Act;
- (b) fix minimum standards of training applicable to holders of licenses and permits respectively;
- (c) 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;
- (d) 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;
- (e) 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;
- (f) formulate a Code of Conduct governing the disciplinary matters and work ethics within the Industry; and
- (g) undertake such other functions and exercise such powers as may be conferred on it by this Act or any other law.

### **50.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Authority for the year ended 31 December, 2010 had not been submitted for my inspection and audit.

## **51. SMALL BUSINESS DEVELOPMENT CORPORATION**

### **51.1 INTRODUCTION**

#### **51.1.1 Legislation**

The Small Business Development Corporation was established under the *Small Business Development Corporation Act, 1990*, which came into operation on 19 June, 1990.

#### **51.1.2 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 programmes; 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.

### **51.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **51.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the Corporation's financial statements for the year ended 31 December, 2009 was issued on 07 July, 2011. The report contained a Qualified Audit Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Government Equity**

I am unable to verify the accuracy, correctness and validation of the Government Equity of K3,749,680 disclosed in the financial statements due to the absence of adequate documentation and relevant information.

#### **QUALIFIED AUDIT OPINION**

In my opinion, except for the effect of the matter referred to in the above paragraph, the financial statements of Small Business Development Corporation for the year ended 31 December, 2009:

- (i) give a true and fair view of the financial position and the results of its operations and cash flows for the year then ended; and
- (ii) with exception of instances of no-compliance described under Other Matters, the financial statements have been prepared in accordance with the *Public Finances (Management) Act, 1995* and generally accepted accounting practices.”

## **OTHER MATTERS**

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

### **1. Staff Advances**

The Corporation allows staff advances for emergency school fees and also contract officers to obtain rental advances. At the year-end 31 December, 2009 the Corporation had K108,275 worth of advances not fully recouped. The advances should be properly managed and recouped within the financial year and in future the practice of staff advances should be curtailed.

### **2. Travel Advances**

Travel advances totalling K242,198 had not been acquitted or repaid as at 31 December, 2009. No copy of the travel policy of the Corporation was provided for my review to determine the reason for non acquittals and appropriateness of the outstanding balance.

### **3. Fixed Assets Register**

The fixed assets register of the Corporation was not properly maintained. Many portable items that were recorded in the register had no serial numbers assigned to them for audit verification. When serial numbers are not assigned to each fixed asset, it would be difficult to identify them when displacement or theft occurs. A periodic stock take of all fixed assets need to be taken in order to ascertain their existence, custody and value.

### **4. Staff Ledgers/History Cards**

A review of the staff ledgers and employee history cards disclosed that these were not maintained by the Corporation. It was difficult to verify the accuracy of the outstanding annual leave accrued, leave taken, gratuity, sick leave, compassionate leave and leave without pay, MILOL and increments to the salary and grades of selected employees in the absence of the ledgers and history cards.

Inadequacy of documents and staff records exposes the Corporation to the risk of incorrect calculation of the employee benefits and other entitlements.

### **5. Business Withholding Tax (BWT)**

The Corporation failed to deduct 10% business withholding tax from its service providers to be paid to Internal Revenue Commission (IRC), where no Certificates of Compliance (COC) were submitted. This was a non-compliance of the income tax provisions and would make the Corporation liable for the failure of not deducting 10% business withholding taxes from the service providers.

**6. Group Tax**

The Corporation had not remitted its group taxes since 1999 which had now accumulated to K699,058 at the end of 2009. I was informed that the Corporation had come to an agreement with IRC to offset its group tax liability against its accumulated GST receivable. However, I was not provided with the copy of the agreement with IRC to offset the group tax liability. Also, I had indicated to management that failing to remit the group tax on time will incur penalties to the Corporation.

**51.3 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 Corporation for the year ended 31 December, 2010 was in progress.



## **52. TOURISM PROMOTION AUTHORITY**

### **52.1 INTRODUCTION**

#### **52.1.1 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 from 1 April, 1993.

Under the *Tourism Promotion Authority Act, 1993*, 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.

#### **52.1.2 Functions of the Authority**

The principal functions of the Authority are: to foster the development of tourism in Papua New Guinea; to formulate a tourism policy for consideration by the National Executive Council and to implement the tourism policy approved by the National Executive Council; to promote Papua New Guinea overseas as a tourist destination; to co-ordinate the overseas promotional efforts of the Papua New Guinea tourism industry; to encourage the provision, development and expansion of tourism infrastructure, facilities and products in Papua New Guinea; and to enhance awareness within Papua New Guinea of the tourism industry and tourism opportunities.

### **52.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **52.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the Authority's financial statements for the year ended 31 December, 2010 was issued on 30 June, 2011. The report did not contain any qualification.

#### **OTHER MATTERS**

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

##### **1. Debtors – Other Receivables**

A debtors listing dating back to 2007 showed that the Authority still owed K340,809. I was not provided with documents to indicate whether the Authority had followed up with the individual debtors for recovery of these debts.

As such, I advised management to continuously follow up with each individual debtor for recovery. It would be appropriate if provision for doubtful debts was made against the debts of 2007 and 2008 and subsequently written-off with the Board's approval.

## **2. Fixed Assets Register**

I observed that the Fixed Assets Register of the Authority did not have the custodian and location details of valuable assets like computers, cameras, printers & copiers and motor vehicles. Also, the office equipments and some furniture and fittings were not registered by the manufacturer awarded serial numbers in the register for proper identification.

I indicated to management that the fixed assets register served as the main control mechanism of all properties owned by the Authority. Without proper identification details and in the event of loss or theft, it would be difficult to identify such loss of the Authority.

Therefore, I recommended to management that a periodic stock take of all fixed assets be undertaken in order to ascertain their existence, custody and location. Each asset must be identified and valuable office equipment like computers, cameras and others be assigned with manufacturer awarded serial numbers and asset codes. Damaged (and beyond repair) or obsolete items should be written-off with the Board's approval.

## **3. Travel and Accommodations**

I noted that some senior officers of the Authority didn't acquit their travel advances on completion of their duty travels both domestic and international as required by the *Public Finances (Management) Act, 1995*. Supporting documents like ticket butts, boarding passes, receipts from hotels and hire car companies and invoices for use of incidental monies were not attached with the payment vouchers to confirm the duty travels taken.

I pointed out to management that this practice does not comply with the requirements in respect of duty travel. I recommended to management that it would be appropriate for the travelling officer to acquit within seven (7) days immediately after returning from the duty travel and this internal control should be strengthened.

## **4. Board Meeting Minutes**

The Authority held only two (2) meetings in 2010 and the minutes of meeting # 2 was not signed, as the term of the Board had expired. It appeared that the Board did not sit for the required sittings for the year as its term had expired and no new Board was appointed.

In accordance with *Section 14* of the *Tourism Promotion Authority Act, 1993*, the Board is required to meet not less than four (4) times in a year. However, this requirement was not complied with since the Board's term expired in mid of 2010.

Therefore, I indicated to management that without a Board, it would be difficult for the Authority to make major decisions affecting the operation of the organization. I recommended that management should take all necessary steps to put forward to the Minister responsible, a submission to the National Executive Council (NEC) to appoint a new Board as soon as possible.

## **53. UNIVERSITY OF GOROKA**

### **53.1 INTRODUCTION**

#### **53.1.1 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 Papua New Guinea 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.

#### **53.1.2 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 Papua New Guinea; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

#### **53.1.3 Powers of the University**

The University shall have the power:

- (a) to grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- (b) to provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- (c) to 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;
- (d) to 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;
- (e) subject to the *Salaries and Conditions Monitoring Committee Act, 1988*, to appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
- (f) to provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residence;

- (g) to regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- (h) to cancel, annul or revoke any act done in the exercise of these powers; and
- (i) to 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.

#### **53.1.4 Subsidiary of the University**

The University has a subsidiary company, Unigor Consultancy Limited. Comments in relation to this Company are contained in paragraph 53A of this report (Part IV).

### **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 University for the years ended 31 December, 2007 and 2008 had been completed and the results were being evaluated.

The University had not submitted its financial statements for the years ended 31 December, 2009 and 2010 for my inspection and audit.

## **53A. UNIGOR CONSULTANCY LIMITED (SUBSIDIARY OF THE UNIVERSITY OF GOROKA)**

### **53A.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 *Company's Act, 1997*.

#### **53A.1.1 Objectives of the Company**

The Company's objectives are to:

- a) Advance, promote, assist and encourage the educational purposes of the University through;
  - (i) Short term programs for and on behalf of the University tailored to the needs of clients; and
  - (ii) Research, consultancy, and publication of all educational materials for commercial purposes;
- b) Conduct or undertake any other business activity both within and outside of Papua New Guinea; and
- c) Expand and diversify business activities to maximise profits and to promote the interest of the Shareholder from time to time.

#### **53A.1.2 Functions of the Company**

The core function of the Company is to provide services in four (4) key areas:

- (a) Professional consultancy services, teaching and dissemination of knowledge;
- (b) Merchandising of text books, educational supplies and stationary;
- (c) Printing and publication of educational materials, textbooks, business documents and all other forms of print material; and
- (d) Catering and cafeteria services.

## **53A.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements for the years ended 31 December, 2005 to 2010 had not been submitted for my inspection and audit.

I have informed the Shareholder and the Management of the Company of their statutory obligations in relation to the preparation and submission of the respective financial statements and to date they have not complied.

## **54. UNIVERSITY OF NATURAL RESOURCES AND ENVIRONMENT**

### **54.1 INTRODUCTION**

#### **54.1.1 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 & Environment in 2008 and became operative in the same year.

Under this Act, the Vudal University College Campus of the Papua New Guinea 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.

#### **54.1.2 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 Papua New Guinea; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

#### **54.1.3 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;
- to provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- to 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;
- to 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, 1988*, to appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;



- to provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residences;
- to regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- to cancel, annul or revoke any act done in the exercise of these powers; and
- to 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.

## **54.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **54.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4) of the Audit Act, 1989 (as amended)*, on the University's financial statements for the year ended 31 December, 2008 was issued on 5 November, 2010. The report contained the following qualifications:

#### **“BASIS FOR QUALIFIED AUDIT OPINION**

##### **Fixed Assets**

The value of fixed assets disclosed in the financial statements as K10,458,981 at the year end was related to the assets located at the main campus. These assets excluded the new buildings at the main campus, Kairak Vudal Resource Training Centre at main campus and properties located at the Oro Campus. Consequently, the fixed assets balance at the year end did not include the value of all the assets under the custody and control of the University. Further, the University had not maintained a proper and up to-date fixed assets register to account for its assets. As a result, I was unable to comment on the existence, accuracy and completeness of the fixed asset balance at the year end.

##### **Valuation of Farm Livestock at Oro and Main Campuses**

The University's Vudal and Oro Campus Farms had several herds of livestock. However, the valuation of livestock were not disclosed in the financial statements. Further, I noted that the farm accounting procedures were not adopted in the accounting for the Vudal Farms Operations. In the absence of the disclosure and appropriate method of accounting, I was not able to comment on whether, the University's accounting for the Farm Operations and the valuation of livestock were properly reflected in the accounts.

### **Books of Accounts of Oro Campus, Kairak Vudal Training Centre and Farm Operations**

The University did not incorporate the results of the operations of the Oro Campus, Kairak Vudal Training Centre and Farms into the University's financial statements. The Statement of Receipts & Payments, bank reconciliation statements, general ledgers and other accounting records were not provided for our review and verification. As a result, I was unable to comment on the completeness and accuracy of the account balance at the year end.

### **Cash Flow Statement**

The University's cash flow statement did not reflect the correct balances under operating, investing and financing activities. As a result, I was unable to comment on the cash flow statement presented as part of the financial statements for the year ended 31 December, 2008.

### **QUALIFIED AUDIT OPINION**

In my opinion, except for the effects of the matters referred to in the Basis for Qualification paragraphs above:

- (a) the financial statements of the University were based on proper accounts and records; and
- (b) the financial statements were in agreement with those accounts and records, and show fairly the state of affairs of the University as at 31 December, 2008, and the results of its financial operations and the cash flows for the year then ended."

#### **54.2.2 Audit Observations Reported to the Ministers**

My Report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the year ended 31 December, 2008 was issued on 5 November, 2010. The report contained the following comments:

#### **Titles to Campus Properties**

Fixed assets are disclosed in the financial statements as K7,198,074. These assets did not have their titles available for my review and to ascertain the existence of these properties. Further, the additions to the staff houses, Kairak Vudal Resource Training Centre and Oro Campus Properties were not being valued. The matter was brought to the attention of the University management and I was advised as follows:

*"During the 2008 audit, the title deeds were in the Vice Chancellor's Office while the Vice Chancellor was on duty travel. However, these title deeds will be tabled during the audit of the 2009 financial statements."*

## Employee Entitlements

During the review of the employee entitlements, it was noted that the Human Resource section of the University did not maintain any register for employee entitlements pertaining to annual leave, long service leave and gratuities. The absence of such records, may result in miscalculations, duplicate payouts and improper accounting. This issue was highlighted in our previous audit report, but appropriate action is yet to be taken by the University. The University in response to my observation advised as follows:

*“Noted Instructions will be issued for this to take effect and will be disclosed in the 2009 financial statements.”*

## Advances Register

The University did not maintain a proper Advance Register for its cash advances that were made to the University project accounts and to its staff members. This account has no movements of recoveries. Further, it was noted that these advances were not being monitored by management. The list below reflects some accounts balances which have been outstanding for a considerable period of time.

	(K)
UOV SRC Account	28,140
UOV Farm	21,385
UOV Catering	25,578
UOV Minimart	103,551
UOV Staff Christmas Club	80,205
UOV Family Amenity Centre Account	20,645
UOV Other Accounts	70,543
Staff Advances	402,444

I recommended that the Bursary recoup all staff advances within reasonable time and no further advances be given until appropriate policies and guidelines are in place. Management responded to my observation as follows:

*“These advances mentioned are all operational accounts respectively, immediately when payments were processed, there were posted into the wrong accounts as advances. Measures are now being taken to rectify this by posting reversal entries to put back the correct balances back in order.”*

### **Creditors and Accrued Payables**

The review of the Creditors and Accrued Payables revealed that K331,119 comprised of mainly tax liabilities payable to Internal Revenue Commission. Audit further noted that these cheques were raised when the payroll was processed. However, these cheques were not delivered to Internal Revenue Commission due to shortage of funds in the bank account. As soon as funds became available, these cheques were released or at times replacement cheques were raised.

I recommended management to administer all tax related matter on a timely basis and it responded as follows:

*“...The University has come up with a debt servicing budget to address this tax liability issue. Also the refunds from GST from 2006 to 2007 have help off-set part of this liability with the Internal Revenue Commission.”*

### **Accounting Division**

The University does not have skilled and competent accounting staff to carry out the accounting functions and tasks, and this has resulted in the accounting deficiencies as noted above. I recommended the University to provide adequate on the job training to its staff to acquire the necessary skills to perform the duties effectively and to manage and take control of the accounting functions and tasks.

Management responded to my query as follows:

*“The Bursary Department has already taken into account its requirement and has included its staff for training, both long term and short term. It has embarked on staff rotation where accounts staff members become aware of the other sections' functions and responsibilities.”*

## **54.3 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, 2009 had been completed and the results were being evaluated. However, the financial statements for the year ended 31 December, 2010 had not been submitted by the University for my inspection and audit.

## **55. UNIVERSITY OF PAPUA NEW GUINEA AND ITS SUBSIDIARIES**

### **55.1 INTRODUCTION**

#### **55.1.1 Legislation**

The University of Papua New Guinea was established under the *University of Papua New Guinea Act (Chapter 169)*.

#### **55.1.2 Objectives of the University**

The objectives of the University include the provision of facilities for study and education; the 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; the conferring, after examination, of the degrees of Bachelor, Master and Doctor and such other degrees, diplomas, certificates and other academic honours as are authorised by the Statutes; the 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.

#### **55.1.3 Subsidiary of the University**

The University has one subsidiary, Univenture Limited, which was incorporated under the *Companies Act, 1997*.

Comments in relation to the subsidiary is contained in paragraph 55A of this Report (Part IV).

### **55.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the University for the year ended 31 December, 2007 had been submitted and the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the year 2007 was in progress.

The University had not submitted its financial statements for the years ended 31 December, 2008, 2009 and 2010 for my inspection and audit.

**55A. UNIVENTURES LIMITED (A SUBSIDIARY OF UNIVERSITY OF PAPUA NEW GUINEA)**

**55A.1 INTRODUCTION**

Univentures Limited was incorporated under the *Companies Act, 1997* on 2 August, 2007. The Company has a total issued capital of one (1) ordinary share of K1.00 and is wholly owned by the University of Papua New Guinea. 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.

**55A.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the period ended 31 December, 2007 was completed and the management letter was issued on 12 August, 2010. However, I am still waiting for the response from the management and signed financial statements to issue the report.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of financial statements of the Company for the years ended 31 December, 2008 and 2009 was in progress.

The Company had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.

## **SECTION B**

# **NATIONAL GOVERNMENT OWNED COMPANIES**





## 56. FOREWORD

This Section of my Report deals with Companies in which the Government of Papua New Guinea holds more than 50% of the Issued Share Capital. On 26 January, 1983, the National Executive Council'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 (Amendment)*, 1995.

The auditing and reporting requirements of these companies are stipulated in the *Companies Act*, 1997.

Section 200 of the Act requires the auditor's report on the financial statements to include:

- (a) The work done by the auditor;
- (b) The scope and limitations of the audit;
- (c) The existence of any relationship the auditor has with the Company;
- (d) Whether all information and explanations required have been obtained;
- (e) Whether in the auditor's opinion, proper accounting records have been kept;
- (f) Whether in the auditor's opinion, the financial statements comply with generally accepted accounting practice and, where they do not, the respects in which they fail to comply; and
- (g) Whether in the auditor's opinion, the financial statements give a true and fair view of the matters to which they relate and, if not, the respects in which they fail to give such a view.

My audit of Government Owned Companies is conducted in accordance with the requirements of the *Companies Act*. Under, *Section 8(2) of the Audit Act*, I am also expected to report to the Minister for Finance and Treasury, the matters of significance to do with the accounts and records, the financial transactions and the assets and liabilities. The members of the Company are also informed of the same.



## **57. AIR NIUGINI LIMITED**

### **57.1 INTRODUCTION**

#### **57.1.1 Legislation**

Air Niugini Limited was incorporated under the *Companies Act*. It was formed to be the successor company of National Airline Commission, following the National Executive Council (NEC) decision of 20 June, 1996 to corporatise the National Airline Commission in accordance with *Section 45* of the *National Airline Commission Act*.

As a result of the NEC decision, all assets, liabilities, staff and operations of the National Airline Commission were to be transferred at the written down book value (as at 31 August, 1996) to Air Niugini Limited. Air Niugini Limited is a 100% State Owned Company.

#### **57.1.2 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 carried on other business which may be usefully carried on in connection with such business;
- to 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;
- to carry, collect, receive, load, unload, store, consign, distribute, transfer and deliver property of every description by any mode of transportation; and
- to 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.

### **57.2 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, 2009 was substantially completed.

The financial statements of the Company for the year ended 31 December, 2010 had not been submitted for my inspection and audit.

## **58. LIVESTOCK DEVELOPMENT CORPORATION LIMITED**

### **58.1 INTRODUCTION**

#### **58.1.1 Legislation**

The Livestock Development Corporation Limited was incorporated under the *Companies Act, 1997*. The share capital is wholly owned by the National Government.

#### **58.1.2 Activities of the Corporation**

The main activities of the Company are breeding and slaughtering cattle and pigs, purchasing and exporting insects, growing vegetables and fruits, and raising poultry.

### **58.2 AUDIT OBSERVATIONS**

#### **58.2.1 Comments on Financial Statements**

My reports in accordance with the provisions of the *Companies Act, 1997* on the financial statements of the Corporation for the years ended 31 December, 2007 and 2008 were issued on 12 August, 2010 and 4 February, 2011 respectively. These reports contained a Disclaimer of Opinion, hence, only 2008 report is reproduced below:

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **1. Limitation of Scope Regarding Opening Balances**

I audited the financial statements of the Corporation for the year ended 31 December, 2007 and issued a full Disclaimer of Opinion on them. Consequently, I was unable to qualify the effect of material misstatements on the opening balances that might have a bearing on the balances reported in 2008 financial statements. I was also unable to perform sufficient audit procedures to satisfy myself as to the accuracy of the opening balances as stated in the financial statements.

##### **2. Subscription Monies Received**

As disclosed in Note 4 to the financial statements, the State paid K600,000 to acquire 600,000 shares of K1.00 each in accordance with NEC Decision No.17/88. However, to-date the State has not advised the Corporation of its nominated shareholders and as such, the amount is still held by the Corporation under capital and reserves pending advice from the State.

### **3. Account with State of PNG**

Note 5 to the financial statements disclosed an amount of K5,332,383 as representing the total value of the assets transferred to Livestock Development Corporation Limited from the then Department of Primary Industry on 01 April, 1983, in accordance with NEC Decision No. 75/82 dated 15 December, 1982. Out of the total transferred, K4,390,950 worth of assets were to have been converted into shares and the shares were to be allotted to the nominated nominees upon advice from the State. However, to-date, no such advice has been received from the State for the conversion to be effected. As a result, I was not able to satisfy myself as to the appropriateness of the recognition and inclusion of the said amount under capital and reserve since no advice has been received from the State on its nominees and no shares have been issued to date.

### **4. Trade Debtors**

The trade debtors reported in the financial statements amounted to K78,196. I was unable to satisfy myself as to the validity and correctness of this account due to the following:

- Last year (2007) ending balance of K233 was not carried forward as beginning of trader debtors in 2008 instead the amount used as beginning was K14,903.
- A variance of K14,904 was noted between the aged debtors listing of K93,100 and the financial statements.
- Some invoices already collected in 2008 were still reported as outstanding at year end. In addition, subsequent receipts collected in January and February 2009 were not reported as outstanding debtors at year end.
- Outstanding Lae accounts receivable totalled K102,172 were not reported in the financial statements.

### **5. Staff Debtors**

Staff debtors are reported in the financial statements as K17,017. There was no proper reconciliation of accounts between the general ledger and the subsidiary records maintained by the Corporation. As a result, I was unable to gain comfort as to the correctness and completeness of the amount reported in the financial statements.

### **6. Inventory**

The Corporation's inventory as at 31 December, 2008 was K697,863. The Corporation has no proper system in place in valuing the livestock based on classification, weight and/or age. I also noted that there were inconsistencies of number of animals in the inventory listing submitted for my verification. In addition, I was unable to confirm the accuracy and existence of the animals at the end of the year as I was not present at the time of stock take. As a result, I was unable to satisfy myself as to the validity, accuracy and existence of the inventory at the balance date.

**7. Fixed Assets – K2,050,380**

The Corporation failed to obtain titles to properties owned by the Corporation around the country. I noted that there were some properties located in other Centres but were not reported in the financial statements. Further, the Corporation did not undertake an independent valuation to establish the proper value of its fixed assets. As a result, I was unable to satisfy myself as to the accuracy, existence and the completeness of the fixed assets balance of K2,050,380.

**8. Land Rental**

The Corporation reported land rental liability in the financial statements totaled K643,815. These land rental liability comprised of land rents located in Western Highlands, East Sepik, Eastern Highlands, Central and Madang Province. Most of these Land were not accounted for in the Corporation's Fixed Assets register due to lack of Land title. As a result, I was unable to ascertain as to the correctness and validity of the land rental liability reported in the financial statements.

**9. Group Tax**

The Group tax liability reported in the financial statements amounted to K1,693,315. This group tax liability was obtained from the Internal Revenue Commission (IRC) calculation dated back from 1997 to 2007. I further noted that there was no accrual of group tax liability for some months in 2008. In addition, the Corporation failed to prepare reconciliation of tax liability against the IRC assessment. As a result, I was unable to satisfy myself as to the validity and correctness of the Group tax liability reported in the financial statements.

**10. GST Payable – K354,118**

The Corporation did not prepare and lodge returns to IRC on a monthly basis. In addition, the Corporation did not perform monthly reconciliations of GST for the year under review. However, I sighted GST assessment from IRC stated that the GST outstanding as of December 2008 was K556,789.97. As a result, I was unable to confirm the correctness and completeness of the GST payable balance of K354,118.

**11. Trade Creditors – K79,398**

The trade creditors reported in the financial statement as K79,398 at year end. The Corporation did not have proper system in place to capture the outstanding creditors at year end. Payment made to a supplier for K6,031 during the year was incorrectly included as outstanding trade creditor as of 31 December, 2008.

As a result, I was unable to ascertain as to the correctness and completeness of the trade creditors reported in the financial statements.

**12. Limitation of Scope Regarding Employee Provision**

Employee provision reported in the financial statements at year end amounted to K155,939. It was not possible for me to extend my audit procedures as the staff files and history cards were not complete and updated for the period under review. Consequently, I was unable to satisfy myself as to the correctness and completeness of the employee provision reported in the financial statements.

**13. Prior Year Adjustment**

The accounting entries posted to this account were not supported by proper documentation and approval. Consequently, I was unable to gain comfort as to the validity and correctness of Prior year Adjustment amounting to K46,599 as stated in the financial statements.

**14. Going Concern**

The Corporation incurred a net loss of K61,226 (2007: K1,272,069 profit) during the year ended December, 2008 and, as of that date, the Corporation's total recorded liabilities exceeded its total recorded assets by K1,172,728. (2007: K1,158,101). These conditions indicate that existence of a material uncertainty about the Corporation's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements and notes thereto do not disclose this fact.

**DISCLAIMER OF OPINION**

Because of the significance of the matters referred to in the preceding paragraphs, I am not in a position to, and do not express an opinion on the financial statements of the Livestock Development Corporation for the year ended 31 December, 2008".

**58.3 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, 2009 and 2010 for my inspection and audit.

## **59. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED**

### **59.1 INTRODUCTION**

#### **59.1.1 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. Additional 4,906,015 shares were issued to the Independent State of Papua New Guinea 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.

#### **59.1.1 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.

### **59.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2009 was completed, however, my report under the *Companies Act, 1997* was delayed due to the Company's non submission of the signed financial statements.

The field work 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, 2010 was in progress.



## **60. MOTOR VEHICLES INSURANCE LIMITED**

### **60.1 INTRODUCTION**

#### **60.1.1 Legislation**

The Motor Vehicles Insurance (PNG) Trust Limited was incorporated under the *Companies Act, 1997* 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 National Executive Council (NEC) for the then Papua New Guinea 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 Papua New Guinea were subsequently sold to the then Papua New Guinea 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 Papua New Guinea 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 Papua New Guinea.

With effect from 1 January, 1999, Motor Vehicles Insurance Limited was incorporated under the *Companies Act* to underwrite the third party insurance under the Act in succession to the Trust and MVITL.

The assets of MVITL immediately before the amalgamation with the then PNGBC Limited were transferred to MVIL when it took over the responsibility for providing third party insurance.

### **60.2 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, 2008 and 2009 were completed and the results were being evaluated.

The Company had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.

## **61. NATIONAL AIRPORTS CORPORATION LIMITED**

### **61.1 INTRODUCTION**

National Airports Corporation Limited was incorporated under the *Companies Act, 1997*. The Company had begun its operations in October, 2009 after its incorporation on 06 October, 2009. The establishment of the Company has been in accordance with *Section 132* of the *Civil Aviation Act, 2000* which envisaged the establishment of a subsidiary company.

National Airports Corporation Limited is regulated by the *Civil Aviation Authority Act, 2000* as an independent Company holding its own Operating Certificates and except for the governance requirements specified in the *Civil Aviation Act, 2000*; it operates independently from the Civil Aviation Authority incorporate a company under the *Companies Act, 1997* that is, or is to become, owner, operator or manager of an aerodrome or airport and may subscribe for, hold, acquire and dispose of any equity securities or debt securities issued by any such company (in this Act called “as airport company”).

#### **61.1.1 Functions of National Airports Corporation**

The functions of the National Airports Corporation Limited are derived from *Section 132* of the *Civil Aviation Act, 2000*.

#### **61.1.2 Subsidiary Company**

The Corporation has a subsidiary company, PNG Air Services Limited. Comments in relation to this company are contained in paragraph 61B of this Report.

### **61.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December, 2008, 2009 and 2010 had not been submitted for my inspection and audit.

## **61A. CIVIL AVIATION DEVELOPMENT INVESTMENT PROGRAMME (CADIP)**

### **61A.1 INTRODUCTION**

#### **61A.1.1 Legislation**

The Civil Aviation Development Investment Programme has been approved by the Government through *NEC Decision No: 145/2009*.

The Civil Aviation Development Investment Programme (CADIP) is largely funded through an Asian Development Bank (ADB) loan and is being co-funded by the Government and is currently being implemented by the National Airports Corporation (NAC) (formerly Civil Aviation Authority (CAA)) over a nine year period (2010 to 2018). A Project Implementation Unit (PIU) has been set up and staffed within the National Airports Corporation (NAC) to manage the program and a Project Steering Committee (PSC) comprised of the key Stakeholders, Department of Treasury, Planning and Monitoring and Transport to oversee and guide the implementation of the program.

#### **61A.1.2 Functions of the Programme**

The Civil Aviation Development Investment Programme (CADIP) has been developed and adopted by the Government to:

1. revitalize and maintain the country's civil aviation network, mainly the 22 national airports;
2. ensure airports and air navigational infrastructure is in compliance with international civil aviation safety and security standards; and
3. establish a sustainable civil aviation network that supports the growth and development of Papua New Guinea.

### **61A.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 Programme for the year ended 31 December, 2010 had been completed and the results were being evaluated.

## **61B. PNG AIR SERVICES LIMITED**

### **61B.1 INTRODUCTION**

#### **61B.1.1 Legislation**

PNG Air Services Limited was incorporated under the *Companies Act, 1997*. It is a wholly owned subsidiary of National Airports Corporation Limited. The Company began its operations in January 2008 after its incorporation on 30 April, 2007. The establishment of the Company had been in accordance with *Section 143* of the *Civil Aviation Act, 2000* which envisaged the establishment of a subsidiary Company to deliver “*air traffic services, aeronautical navigation services and aeronautical communication services and all related services in Papua New Guinea and the airspace for which it is responsible.*”

Papua New Guinea Air Services Limited as an *Aviation Safety Regulator* is an independent Company holding its own Operating Certificates, and except for the governance requirements specified in the *Civil Aviation Act, 2000*, it operates independently from the Civil Aviation Authority.

#### **61B.1.2 Functions of PNG Air Services Limited**

Papua New Guinea Air Services Limited was established with a purpose of delivering safe air navigation services to the airline industries and the travelling public. It ensures provision of quality aeronautical navigation services to both domestic and international customers at a reasonable cost, hence, to be a leader in providing world standard air navigation services. Papua New Guinea Air Services Limited makes sure that the radio coverage in Papua New Guinea both VHF and HF are improved and that efficient and effective air traffic services are maintained.

### **61B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **61B.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8* of the *Audit Act, 1989 (as amended)*, on the Company’s financial statements for the years ended 31 December, 2009 and 2010 were issued on 09 August, 2010 and 22 June, 2011 respectively. The reports contained similar Qualified Audit Opinions and only the 2010 report is reproduced as follows:

#### **“BASIS FOR QUALIFIED AUDIT OPINION**

##### **Transfer of Assets/Facilities from Civil Aviation Authority**

The financial statements and the Fixed Assets Register disclosed only assets purchased in prior years and 2010 totalling K3,549,000. Assets reportedly transferred from Civil Aviation Authority and currently in use by the PNG Air Services Limited such as Air Traffic Control Centre (Control Tower Building), ISS Building and Associate Building, HF Receiver Station, James Hill (DVOR/DME), Rader Hill, Burns Peak (VHF), 14/32 ILS and PY NDB Sites were not included in the financial statements.

I was not provided with any lease documents/transfers that support the use of these facilities. As a result, I was unable to determine ownership, completeness and the propriety in the usage of these facilities and properties.

### **QUALIFIED AUDIT OPINION**

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

- (a) the financial statements of *PNG Air Services Limited* for the year ended *31 December, 2010*;
  - (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) except as noted under other matter paragraph, proper accounting records have been kept by the Company; and
- (c) I have obtained all other information and explanations required for the purposes of my audit.

### **OTHER MATTER**

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

- **Salary Sacrifices**

A number of senior officers and executives had utilized their contract allowances as salary sacrifices to purchase motor vehicles, pay rent or as repayments for housing mortgage. The amount sacrificed was deducted from the gross before tax calculations. The practise resulted in a reduced tax burden on the respective individual tax payers and under payment of group taxes. I was not provided the necessary written documentation, approval or variation granted by the Internal Revenue Commission (IRC) for *PNG Air Services Limited* to continue with this practise and as such, I consider this practise as flawed and not authorised by the IRC. Further, the contract of employment for the respective individuals did not provide such tax relief accordingly.”

**62. NATIONAL PETROLEUM COMPANY OF PNG (KROTON) LIMITED (FORMERLY KROTON NO. 2 LIMITED)**

**62.1 INTRODUCTION**

**62.1.1 Legislation**

National Petroleum Company of Papua New Guinea (Kroton) Limited was incorporated under the *Company's Act, 1997* and was acquired by Independent Public Business Corporation on 24 November, 2008.

Independent Public Business Corporation was approved as the state's nominee in the PNG LNG Project as resolved by *National Executive Council (NEC) in its Meeting No. 36/2008 through Decision No. 223/2008*.

**62.1.2 Objective of the Company**

The objective of National Petroleum Company of Papua New Guinea (Kroton) Limited is to invest in the PNG LNG Project as PNG state's nominee holding 16.57% Equity in the Project.

**62.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December, 2010 was completed. However, my report under the *Companies Act, 1997* was delayed due to the Company's non submission of the signed financial statements.

## **63. NCD WATER AND SEWERAGE LIMITED (TRADING AS ‘EDA RANU’)**

### **63.1 INTRODUCTION**

#### **63.1.1 Legislation and Objectives of the Company**

The NCD Water and Sewerage Limited was incorporated under the *Companies Act*. The *National Capital District Commission (Transfer of Assets, etc) 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 National Capital District Commission.

#### **63.1.2 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 National Capital District.

### **63.2 AUDIT OBSERVATIONS**

#### **63.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act, 1997*, on the Company’s financial statements for the year ended 31 December, 2009 was issued on 24 May, 2011. The report contained a Qualified Audit Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Capital work in progress – K8,109,908**

My review of the capital work in progress revealed that Eda Ranu did not maintain a proper accounts and records in respect of the capital work-in progress of K8,109,908 stated at the year end. The account balance had been carried forward at the cost price over many years without being transferred to the fixed assets. As a result of inadequate accounting records being maintained to substantiate the existence of capital work in progress, I was unable to determine the completeness, existence, accuracy and valuation of the capital work in progress stated in the financial statement as at 31 December, 2009.

##### **Stock valuation Account – K 2,081,554**

During the review of the Company’s stock valuation balance of K2,081,554 at 31 December, 2009, I noted that the entity did not maintain stock valuation report to enable me to verify the accuracy and completeness of the stock account. As a result, I was not able to verify the stock balance at the year end.

##### **Fixed Assets – K34,562,232**

The Company has disclosed its fixed assets at a written down value of K34,562,232 as at 31 December, 2009. Of the total fixed assets, I was not able to verify K21.7 million worth of the assets classified under water, sewerage and plant categories.

Further, there was no proper fixed assets register maintained for all the fixed assets under the custody and control of the Company. As a result, I was not able to conclude on the accuracy, measurement, existence and completeness of the carrying amount of the fixed assets at the year end.

#### **Trade Debtors – K28,968,508**

Trade debtors were disclosed as K20.3 million at 31 December, 2009. The gross trade debtors balance at the year-end was K29 million against a total provision of K8.7 million. My audit procedures revealed that the Company did not have appropriate policy on provision for doubtful debts and bad debts write-off. As a result, I was unable to confirm the correctness, completeness and measurement of the balance as at 31 December, 2009.

#### **Cash Flow Statement**

The Company disclosed K3,600,627 as payment for purchase of fixed assets in the cash flows from investing activities. However, I was not provided with supporting documentation or explanation for K1.2 million included as part of K3.6 million stated above.

#### **QUALIFIED OPINION**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph.

- (a) the financial statements of NCD Water & Sewerage Limited for the year ended 31 December, 2009:
  - (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

I have obtained all the information and explanations required.

### **63.3 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, 2010 was in progress.



## **64. NIUGINI INSURANCE CORPORATION LIMITED**

### **64.1 INTRODUCTION**

#### **64.1.1 Legislation**

Niugini Insurance Corporation Limited is a public company formed on 20 August, 1992. It was formed to change the status of the then existing Niugini Insurance Corporation to a public company. Niugini Insurance Corporation Limited was incorporated under the *Companies Act* to be the successor company of Niugini Insurance Corporation.

In January 1998, the Government of Papua New Guinea announced its intention for the then Papua New Guinea Banking Corporation to acquire Niugini Insurance Corporation as part of the reform of the financial services sector.

#### **64.1.2 Functions of Niugini Insurance Corporation Limited**

The functions of the Corporation are: to carry on all kinds of insurance business; to carry on fire, marine, accident, employer's liability, workers compensation, life, sickness, burglary and robbery, theft, fidelity and transit insurance; to grant annuities of all kinds; to purchase and deal in and lend on life reversionary and other interests in all properties of all kinds; and to reinsure or counter-insure all or any risks and to undertake all kinds of re-insurance and counter-insurance.

#### **64.1.3 Cessation of Trading**

In October 1998, PNGBC entered into an agreement with MMI General Insurance (NZ) Limited to form a joint venture company, Pacific MMI Insurance Limited. Supplementary agreement entered into provided for the Company (Niugini Insurance Corporation Limited) to cease conducting insurance business except for the purposes of running off its existing insurance contracts and policies and for its fixed assets to be transferred to either the then Papua New Guinea Banking Corporation (PNGBC) or Pacific Mutual Insurance Limited (PMIL) at net book values and for employees to transfer to Pacific Mutual Insurance Limited (PMIL). These transactions were effective as of 1 July, 1998.

### **64.2 STATUS OF THE FINANCIAL STATEMENTS**

At the time of preparing this Report, the Corporation advised me that they have lodged the application for deregistration of the Corporation with Investment Promotion Authority. That being the case, the Corporation will be excluded from my future reports to Parliament.

## **65. NORTH FLY HIGHWAY DEVELOPMENT COMPANY LIMITED**

### **65.1 INTRODUCTION**

North Fly Highway Development Company Limited, was incorporated under the *Companies Act*.

The main objective of the Company was to finance a permanent access road from Kiunga to Tabubil in Western Province.

### **65.2 STATUS OF FINANCIAL STATEMENTS**

According to the records received from Investment Promotion Authority, the Company had been deregistered on 3<sup>rd</sup> June, 2002. That being the case the Company will be excluded from my future reports to Parliament.

## **66. PAPUA NEW GUINEA PORTS CORPORATION LIMITED (FORMERLY PAPUA NEW GUINEA HARBOURS LIMITED)**

### **66.1 INTRODUCTION**

#### **66.1.1 Legislation**

The PNG Harbours Limited was incorporated under the *Companies Act, 1997* on 19 June, 2002. This initiative was in accordance with the privatisation policy approved by the National Executive Council (NEC) in 1999. The Company changed its name to PNG Ports Corporation Limited on 7 March, 2006.

#### **66.1.2 Functions of PNG Ports Corporation Limited**

The general functions of the Papua New Guinea 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.

### **66.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **66.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act, 1997* on the financial statements of the Corporation for the year ended 31 December, 2008 was issued on 7 October, 2010. The report contained the following Basis for Disclaimer of Opinion:

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **Limitation of Scope arising out of prior year’s Disclaimer of Opinion**

I audited the financial statements of the Corporation for the year ended 31 December, 2007 and issued a full disclaimer of opinion on them. Consequently, I am unable to quantify the effects of such material misstatements of the opening balances that might have had a bearing on the balances reported in 2008 financial statements. I was unable to perform sufficient audit procedure to satisfy myself as to the accuracy and the completeness of the opening balances.

##### **Internal Control Environment**

Several weaknesses were noted in PNGPCL’s accounting systems and the overall internal control environment of the period under audit. I also noted that weakness in the management information system contributed to the ineffective monitoring of the preparation and quality of the financial statements.

**Property, Plant & Equipment- K239,866,298**

The review of fixed asset register revealed that fully depreciated fixed assets were reinstated and depreciated due to the transition from Old System (Oracle) to new system (Finance Technology One). The total written down value of fixed assets of K156,186,551 was transferred from Oracle to the Finance Technology One. It was noted that those fully depreciated assets in the fixed asset register were reinstated to the original cost due to an error by recording the date of transition period as acquisition date. Further, this error had resulted in incorrect and excess depreciation charged in 2008 and as a result, written down values had been misstated at the balance date. Consequently, I was unable to verify the completeness and accuracy of the property, plant & equipment balance at the year end.

**Unrecoverable Investments of K16 million in Lehman Brothers and K9 million in Metal Storm Limited.**

PNGPCL secured investments in international financial institutions through the BSP Capital Limited, the Investment Manager for PNGPCL. According to documents I have reviewed, Lehman Brothers had gone bankrupt and PNGPCL had initiated legal proceedings to take hold of the collateral and to recoup the investors' money. Metal Storm Limited had also been declared insolvent subsequent to 31 December, 2008 as per their investment manager, BSP Capital Limited. PNG Ports Corporation Limited (PNGPCL) has fully provided K16 million as doubtful debts (the book value of investments in Lehman Brothers) as at 31 December, 2008. I was unable to verify the carrying value of these investments at balance date due to lack of audit evidence from PNGPCL.

**Taxation – K22,495,609**

As disclosed in Note 13(c) to the financial statement, income tax expense for the year was computed without considering any tax adjustments. Thus, PNGPCL had not calculated or adjusted the tax effect in the financial statements and has not complied with the *International Accounting Standard 12 (IAS 12)* on income taxes. I was unable to verify the current year tax balances and prior period tax adjustments due to lack of supporting documentation such as tax computation work sheets. In my opinion, tax balances and expenses for the year ended are materially misstated.

**Non Lodgement of Annual Returns as Required by the Companies Act, 1997**

I observed that important statutory compliance matters such as Annual Returns were not lodged with the Registrar of Companies as required by the *Companies Act, 1997*. The only Annual Return provided for audit verification was that for 2005 while the Annual Returns for 2006 and 2007 were yet to be lodged with the Internal Revenue Commission. Non-lodgement of Annual Returns was not in compliance with the *Companies Act, 1997*.

### **Adjustments to Retained Earnings – K2,956,895**

There was a variance of K2,956,895 in the opening balance of retained earnings in 2008. As per the PNGPCL management, these were brought forward from 2005 and had not been reconciled in a timely manner. PNGPCL could not provide any detailed listings for these adjustments amounting to K4,866,854. Due to lack of supporting documentation, I was unable to verify the completeness and accuracy of these transactions which were charged to profit and loss in 2008.

### **DISCLAIMER OF AUDIT OPINION**

In my opinion, because of the significance of the matters discussed in the preceding paragraphs, I was unable to and do not express an opinion on the financial statements of the Corporation for the year ended 31 December, 2008.”

### **Legal and Regulatory Requirements**

#### **Breach of *Public Finances (Management) Act, 1995* and *Companies Act, 1997***

The Corporation did not comply with the provisions of the *Public Finances (Management) Act, 1995* and the *Companies Act, 1997* in preparing and presenting the audited financial statements within the required timeframe. The 2008 financial statements were submitted to audit only on 16 June, 2009 and due to the Corporation’s inability to provide timely information, the audit was suspended on a number of occasions and finally concluded in July 2010.

### **66.2.2 Audit Observations Reported to the Ministers**

My Report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records for the year ended 31 December, 2008 was issued on 7 October, 2010. The report contained the following matters:

#### **1. Tendering Processes**

PNG Port Corporation has a formal Tendering Process by which all capital expenditure projects are evaluated and awarded to contractors. All Tenders to PNG Ports Corporation Limited were evaluated using the in-house tendering guidelines to ensure that tender submissions are reviewed and assessed for compliances in accordance with the requirements of the tender documents and the PNGPCL guidelines for tender evaluation and awarding of contracts-1988 and ADB guidelines for those projects which are funded by ADB. In 2009 a contract (Overseas Wharf Extensions for Lae and Kimbe Ports) was approved and awarded to Nawae Constructions for K88 million by the PNGPCL Board despite the recommendation by the Tendering Committee to award the contract to J.B Manalo as per the evaluation results.

I brought the matter to the attention of the Corporation and it responded as follows:

*“PNG Ports Corporation Limited is a Majority State Owned Enterprise governed by the Independent Public Business Corporation of Papua New Guinea Act, 2002 and its Amendment Act, 2007. Section 2 (1) of the Amendment Act specifically states that the Public Finances (Management) Act, 1995 does not apply. The tendering processes employed in 2008 in Lieu of the Public Finances (Management) Act and its supporting guidelines and regulations were deficient. The 1998 guidelines have been replaced by extensive policy on Tendering and Procurement that was approved by the Board on the 27<sup>th</sup> May, 2010.*

*The Tender and Evaluation policy ensures that the process is transparent and accountable to determine fairness and equal opportunity in the decision outcomes. The Tender and Evaluation Committee makes the appropriate recommendations to the PNG Ports Corporation Limited Board through the Office of the Chief Executive Officer. It must also be noted that all due processes are followed in the tender and evaluation process and appropriate recommendations made by the management to be considered by the Board but the end result depends entirely on the Board’s discretion.”*

## **2. Investments and Losses**

Investments in Lehman Brothers of K16 million and Metal Storm Limited of K9 million through BSP Capital (investment manager) were not strategically analyzed by PNG Ports Corporation Limited independently even though BSP Capital’s expertise was dependable. This has resulted in investments worth more than K25 million classified as irrecoverable as the Lehman Brothers have gone bankrupt and the Metal Storm Ltd went insolvent in 2009. I was not provided with the relevant documentation regarding the investments decision taken by the PNGPCL Board or the provision booked for investment losses of K16 million. I brought this issue to the attention of the Corporation and the management since advised as follows:

*“The Management of the PNG Ports Corporation Limited acknowledged the fact that the decision to invest in the PNG 30 Notes Series and the Metal Storm was based on the best professional investment information available at that time of the decision which was provided by the BSP Capital. That does not discount the fact that the Board and the Management knowingly took a certain level of investment risk at the time of the decision. However, the Board and the Management accept responsibility for the outcome of the decision as the norm of the industry.*

- *The Board made a decision to provide bad debt provision in anticipation to write-off the K16.060 million relating to the PNG 30 Notes Series which is adjusted in the 2008 accounts. However, the management is pursuing this matter in the hope that it will be redeemed and depends largely on the outcome of the court decision.*
- *The management remains optimistic that the investment in Metal Storm will be redeemed on maturity date in November 2011. In the meanwhile, we continue to receive the quarterly interest on the investment in the Metal Storm.*

*A new Investment Policy was approved by the Board on the 11 December, 2009. This policy changes the emphasis of the investment strategy from chasing high but risky returns to that of safeguarding the investments of PNG Ports from the unacceptable risk of capital losses. This policy specifies the investment parameters and specifically prohibits investments that put at risk the original capital investment like shares and investments dominated in foreign currency.”*

### **3. The Charges on Storage not being reviewed**

As per the test performed in respect of charges on storage, I noted that no competent officer was responsible for reviewing the storage charges mainly for three (3) locations in Overseas Wharf, Port Moresby Ports Storage Yard and Coastal Storage Wharf Yard. I recommended that there must be a Wharf Superintendent or any Senior Officer should perform this activity by checking out any items taken out of the storage yard and ensure they are charged accordingly.

Management responded to my concern as follows:

*“Significant changes have since been made to operations in the areas of audit concern. We have now separated the receipting function from recording the storage activity which was previously done by the one and same person. Job responsibilities have been demarcated so that the storage clerk is responsible for recording registers of items (cargo) in the storage yard and monitoring the inward and outward movement including the issuance of delivery dockets.”*

### **4. Outsourcing of Internal Audit Function**

During my review of the process of outsourcing of Internal Audit Function, I noted that the Tendering Processes were never followed or the tenders evaluated properly. The actual amounts invoiced by the consultant were higher than the agreed amounts and the invoices did not include a GST registration number.

The tender was not subjected to the normal process for evaluation and appraisal. However, the PNGPCL Board appointed a consultant for internal audit function. As per agreement, item no. 5 remuneration, sub-item 5.3 spells out the categories of annual payments. I noted that K36,666.66 was paid monthly (GST inclusive) and the total paid for the year was K439,999 compared to the agreed contract value of K350,000 for the first year which resulted in an overpayment of K89,999.

The Consultant, as per the contract, was eligible to claim GST, I requested for the Certificate of Compliance (COC) and the GST registration number, but none were provided for my verification. Further, PNGPCL failed to retain 10% of the invoice amounts for non provision of COC by the Consultant which should have been remitted to the Internal Revenue Commission.

Management concurred with my observation and agreed to comply with the proper procedures in future.

### **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 Corporation for the year ended 31 December, 2009 was in progress. The Corporation had not submitted its financial statements for the year ended 31 December, 2010 for my inspection and audit.



## **67. PNG POWER LIMITED**

### **67.1 INTRODUCTION**

#### **67.1.1 Legislation**

PNG Power Limited was incorporated by the Privatisation Commission under *Section 3(1)* of the *Electricity Commission (Privatisation) Act, 2002* as the successor company to the Papua New Guinea Electricity Commission (ELCOM), a statutory corporation established under the *Electricity Industry Act (Chapter 78)*.

#### **1. The *Electricity Commission (Privatisation) Act, 2002* transferred to PNG Power Limited:**

- a) 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;
- b) All of ELCOM's liabilities other than those transferred to PNG Dams pursuant to item 2(b); and
- c) All water use permits held by ELCOM and referred to in *Section 7(1)* of the *Act*.

#### **2. Employees**

Transferred all of the employees of ELCOM to the employment of PNG Power Limited.

#### **3. PNG Power to be a Specified Entity**

Declared PNG Power Limited as a "Specified Entity" for the purposes of *Section 8* of the *Act*.

#### **4. Shares in PNG Power**

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 as the trustee of the General Business Trust under the *Independent Public Business Corporation of Papua New Guinea Act, 2002*).

#### **5. Consideration**

The consideration for the transfers referred to in *items 1* and *2* was nil.

### 67.1.2 Functions of the Company

The functions of the Company are mainly 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.

## 67.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 67.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act, 1997* on the financial statements of the Company for the year ended 31 December, 2008 was issued on 06 August, 2010. The report contained a Disclaimer of Opinion.

#### “BASIS FOR DISCLAIMER OF OPINION

##### Opening Balances

My report for the year ended 31 December, 2007 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 creditors, inventory and tax balances. Since these opening balances were included in the determination of the results of operations and cash flows of the Company in 2008, 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, 2008.

##### Capital Work in Progress

I was not provided with complete documentation in respect of the costs incurred in 2008 amounting to K125 million for the various Capital Projects in progress. Also, I was unable to determine the appropriateness of the capitalizing of K8.8 million administration costs during the year due to inadequate documentation. Further, I have also identified a difference of K10.9 million existing between the general ledger and the project sub-ledgers, however, I was unable to evaluate and confirm the accuracy of the general ledger amount for want of appropriate source documents. Consequently, I was unable to determine the accuracy of the capital work costs incurred in 2008 or the residual carrying value of K303 million taken up in the financial statements.

##### Property, Plant and Equipment

A total of K42 million worth of project costs were capitalized and transferred from capital work in progress. However, I was unable to determine the accuracy of the transferred costs as I was not satisfied with the adequacy of documentation provided in respect of capital work in progress as mentioned above. Consequently, I was unable to confirm the accuracy of the total carrying value of property, plant and equipments amounting to K719 million shown in the financial statements.

## Depreciation

Due to the fixed asset limitations noted above, I was not able to verify the accuracy of depreciation of K30 million charged to the profit and loss account in 2008 and its impact on the accuracy of the profit of K15 million stated for the year.

## Inventory

The inventory balance was inflated by a total sum of K30.3 million which was not supported by detailed supporting documents. This increase arose due to:

- At the balance date, the main account bank reconciliation included a reconciling amount of K17.3 million representing payments made to various overseas suppliers for various items purchased by the Company. At the time of payment, these payments were not processed into the Company's general ledger system, hence appearing as a reconciling item in the Company's bank account at the balance date. As part of the year end process and in the course of finalising the statutory financial statements, the Company adjusted and included this amount in the financial statements by reducing the bank account with corresponding increase to 'general stores' inventory; and
- Further, the inventory balance was increased by approximately K13 million as a year end adjustment by which the fuel on hand account balance increased from the original balance of K3.9 million.

The combined effect of these two adjustments resulted in an increase of inventory by K30.3 million. However, no detailed supporting documents were made available to support the basis of these entries.

Had a detailed analysis been performed, some of these items may have required reporting through the profit and loss account. However, in the absence of any detailed review, it was not possible to quantify the amount that would have been reported through the income statement, if any. Accordingly, I am unable to confirm the accuracy and appropriateness of these entries and its consequential increase to the inventory balance and impact on the profit for the year.

## Trade Payables

At balance date, the reconciliation of the Company's major trade payable accounts identified unreconciled variances between the Company's records and the supplier's statements. Included in the reconciliation is a variance of K14.3 million relating to a fuel supplier. For the purposes of the 2008 statutory financial statements, the amount was adjusted and included in the financial statements by increasing the trade payable account with corresponding increase to 'Inventory - fuel' account by K13.3 million. No detailed analysis or supporting documentation was made available to me to support this treatment. Accordingly, I am unable to confirm the accuracy and appropriateness of this entry and its consequential impact on the trade payable balance for the year.

## **Income Tax Balances**

The Company did not maintain satisfactory records to confirm the accuracy and completeness of income tax balances. Furthermore, the limitations discussed in the preceding paragraphs impact on the accuracy of the reported profit for the year and consequently impact on the accuracy of the income tax balances. Accordingly, I was unable to confirm the accuracy and completeness of income tax balances as disclosed in the 2008 financial statements.

## **Payroll Systems and Salaries and Wages**

I have identified a number of matters in relation to the internal processes and procedures on the Company's Chris Payroll functions, which impacts on the accuracy and completeness of the payroll costs.

In that respect, I have noted that salaries and wages taxes were not deducted appropriately on gratuities and allowances paid to employees as per the *Income Tax Act, 1959*. Also, in respect of salary sacrifices, gratuities and payout entitlements, payments were made to superannuation funds determined by the respective employees before deducting appropriate taxes which is not appropriate and violates the above Act.

Due to the pervasive nature of the operation of the payroll functions, I was unable to determine the accuracy and completeness of the tax and superannuation deductions, and whether these have been appropriately charged and remitted to the respective authorities in accordance with the applicable legislations.

## **Accounting for Funds received in respect of Rural Electrification Projects**

An amount of K1.0 million received as a grant from the State of Papua New Guinea towards rural electrification projects was fully recognized as revenue in the accounts of the Company for the year. However, the Company was unable to provide in its review documents that the conditions attached with the grants were complied with which enabled them to fully recognize the grant for the year. The *International Financial Reporting Standards IAS 20: Accounting for Government Grant and Disclosure of Government Assistance* stipulates that a government grant shall not be recognized fully until there is reasonable assurance that the entity will comply with the conditions attached with the grant. Accordingly, in the absence of relevant documentation, I was unable to confirm whether the full recognition of the grant as income for the year was appropriate.

## **DISCLAIMER OF AUDIT OPINION**

Because of the existence of the limitations on the scope of my work, as described in the preceding paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitations not existed, I am unable to and do not form an opinion as to whether the accompanying financial statements gives a true and fair view of the financial position of the PNG Power Limited as at 31 December, 2008, and of its financial performance and its cash flows for the year then ended.”

## 67.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of the Company for the year ended 31 December, 2008 was issued on 06 August, 2010. This report contained the following observations:

### 1.0 Credit Control and Debt Management

At the balance date, the Company was owed over K70 million by its corporate and household customers for electricity consumption, out of which K28 million or 40% was considered doubtful. An age analysis indicated that approximately K25 million of the total debt was in 150 days or six (6) months plus category, suggesting that credit control and debt management requires significant improvement. A number of measures were in place including a dedicated debt collection team and legal proceedings but these measures did not appear to improve the debt profile significantly and the associated credit risk.

The Management had since advised that, *“the Board has identified approximately K15 million as potential bad debt for write off. It was further established that out of K15 million, K7 million was confirmed as irrecoverable and was written off in 2008 accounts. The remaining balance is subject to recovery through down payment schedules as agreed with the customers and / or other course of action, including recovery proceedings.”*

### 2.0 Procedures and Processes over Billing/Revenue System

A number of observations were made in relation to the Gentrack billing system which suggested that the internal control processes and procedures pertaining to the current billing system needs to be strengthened to avoid the risk of revenue losses and other irregularities. In fact, the Company continued to experience significant revenue losses through various factors, including illegal connections. The average power loss ratio for the year 2008 was 19% (2007: 17%) which equated to around K100 million (2007: K81 million). These losses are considered significant and should require appropriate strategies to be considered and implemented to enable improvement.

In my review, I noted these issues: incorrect tariff rates being used to bill customers, inadequate control over meter equipments, faulty easipay meters not replaced on a timely basis, unregistered easipay customers not investigated and validated on a timely basis, inadequate documentation over new electricity connections and meters on estimate basis not finalised on a timely basis. Furthermore, there was no evidence of management reports, such as exception reports being utilised on a consistent and timely basis to identify and resolve billing related issues.

The Management responded as follows: *“A project team is in place together with the internal investigators are attending to these issues on an ongoing basis until these are rectified or minimised and staff who are involved were either suspended or are under suspension.”*

### **3.0 Procedures and Processes over Purchase and Payables System**

In my review of the Purchase and Payables Cycle, I noted the following observations in relation to the internal processes and procedures:

- a) Supplier statement reconciliations identified significant unreconciled variances between the supplier statement and the company's accounts payable ledger at the balance date. Supplier invoices and payments were entered into the wrong period which contributed to the unreconciled variances in the supplier statement reconciliations;
- b) Trade creditor's ledgers recorded a number of long outstanding overseas creditors that appeared to have been settled by balance date. Given the aging and given the fact that overseas suppliers are prepaid before goods and services are provided, it is unlikely that this represented genuine outstanding unpaid invoices;
- c) The bank reconciliation identified significant bank drafts made to overseas suppliers but there appeared to be a lack of effective coordination between the accounts, expenditure and logistics to ensure that bank draft payments were monitored to ensure that the intended goods or services were received within a pre-agreed timeframe;
- d) The cheque register was not properly maintained to document sign off by respective recipients of cheques issued out of the Port Moresby head office;
- e) A number of employees have access to approving the purchase requisitions and also have access to approving purchasing orders. Furthermore, certain unauthorised employees had access to raising requisitions and purchase orders. Ineffective segregation of duties and inappropriate access may lead to irregularities; and
- f) Former employees still had access to approving purchase requisitions.

The Management has responded as follows; *“The supplier's accounts are paid only when the supplier's statement is reconciled against the accounts payable ledger and for any unsettled invoices for overseas supplies these are verified & cleared with the outstanding bank overdrafts. A team has been set up specifically for and to conduct regular meetings to oversee the processing of bank draft and report back on issues that needs addressing. The account payable team has been advised on the proper maintenance of the cheque register and a consultant is reviewing assets management and looking at streamlining of process.”*

#### 4.0 General Ledger Control Account Reconciliations

General ledger control account reconciliations was one of the key internal control processes to maintain the integrity of the financial ledger, provided it was performed on a timely basis with adequate review by a senior and independent personnel. I made the following observations which suggested that the control account reconciliations process needed improvement:

- A number of control account reconciliations were not evidenced as properly reviewed and authorised;
- Reconciliations were not performed on a timely basis;
- A number of key control accounts contained significant reconciling items including the main operating bank account and the capital project accounts;
- A number of account balances contained items that were considered 'long outstanding'. For instance, other creditors contained items with transactions dates going back to 2003, 2004, 2005 and 2006, and the capital advance account included advances receipted from customers in the 1980s and the 1990s;
- Fuel stock was not properly reconciled with physical quantities at the balance date; and
- No supporting documentation was provided for a number of journal entries.

The Management advised as follows; *“An account reconciliation work plan has been devised for staff to meet deadlines for completion of their reconciliations and clear outstanding reconciling items and report back on issues affecting their accounts at our fortnightly reconciliation meetings.”*

#### 5.0 Compliance with Filing of Statutory Returns

The Company was subject to a number of statutory regulations which required certain returns to be lodged with the respective authorities. To date, the following returns remain outstanding and consequently, it exposes the Company to penalties and other adverse consequences.

##### a) Corporate Tax Returns

These returns are required to be lodged with the Internal Revenue Commission within six (6) months of the balance date. Tax returns for the years 2006 and 2007 remained outstanding.

b) **GST Returns**

These returns are required to be lodged with the IRC within 21 days of the month. GST returns for the period August-December 2008 were lodged in 2009. Also, the returns for the years 1999 to 2004 were not lodged and the IRC calculated retrospectively and imposed a bill of K24 million on the Company. This charge is being repaid at K500,000 per month.

The Management responded as follows; *“The corporate tax returns are complied based on audited annual accounts and reviewed by the tax agent prior to lodgement with IRC and usually the process is lengthy while efforts are made to ensure the GST returns are lodged in the following month once all due processes are completed.”*

**6.0 Control of Fuel Stock**

Fuel remains one of the significant costs of the Company. Accordingly, effective controls are required to monitor and manage its usage. Although, the detailed schedule of fuel was reconciled with branch returns, the returns were not independently verified by the head office personnel.

The Management has responded as follows; *“The variance on the fuel account (K3.4 million) was subsequently written off and included in the 2008 results. Related internal control procedure will be reviewed and strengthened where possible.”*

**7.0 CHRIS Payroll**

The following matters, pertaining to the Company's Chris Payroll System were noted:

i) **Salary Sacrifice for Superannuation**

There were instances of salary sacrifices made for superannuation savings with no evidence of review performed to ensure compliance with the applicable taxation legislation.

ii) **Nil Superannuation Deductions**

Instances where no deductions were made for superannuation contribution for some employees for some pay periods.

iii) **Gratuity Payouts**

Instances whereby gratuity payouts were transferred to superannuation savings with no salary taxes calculated, withheld and paid to the Internal Revenue Commission.



iv) **Allowances and Tax Calculations**

Certain employees had received cash allowances but these allowances were not included in the taxable income with related wages taxes calculated and remitted to the Internal Revenue Commission, as required by the *Income Tax Act, 1959*.

v) **Personnel Files Maintenance**

I also noted instances whereby the personnel files were not properly maintained to document details such as pay rate changes, authorisation of employment and authorisation for overtime payments. Furthermore, no timesheet system was maintained, as required by the Company Policy.

The Management has since advised that, *“Management is aware of these issues and they are being considered for resolution. This issue of salary sacrifice for superannuation is currently in discussion with IRC for a mutual resolution.”*

## 8.0 **Accounting Manual**

Currently, the Company does not have an accounting manual that can be accessible to and used by the staff in dealing with accounting/financial matters affecting the Company. I understand that the management is working on this and will be rolled out as and when completed.

The Management has since advised that, *“Standard operating procedure have been done by respective staff for their area of responsibility and these will form part of the accounting manual which the finance & development team has been tasked to put together.”*

## 9.0 **Control Over Credit Card Use**

The Company provides credit cards to its management personnel for their official/business related expenses and account for the same for settlement by the Company. However, I noted that:

- Some payments made by the Company did not have the relevant supporting documents to confirm whether costs incurred were indeed for and on behalf of the Company;
- Even in instances where documentation were provided, I was unable to evaluate whether purchases made at supermarkets and general household shops, hospital bills and restaurants were incurred for and on behalf of the Company;
- On two (2) instances, cash withdrawals were paid by the Company but without supporting documents;

- All six (6) cardholders tested had incurred financing charges. These are avoidable charges if the bills were settled in a timely basis or the credit limits were not exceeded; and
- The template, which all cardholders are required to complete and account for the transactions was not completed on a timely basis.

Furthermore, there does not appear to be a documented, formal policy on the use of credit cards, covering matters such as what costs will be met by the Company and the card holders, who is responsible for finance and penalty charges and the need for timely and proper accounting for the transactions and consequences for failure to comply with the policy.

The Management has since advised that, *“A policy on the credit cards was formulated and approved for implementation in 2009.”*

#### **10.0 Southern Highlands Province Rural Electrification Program (SHPRE Project)**

The bank account maintained to receive and manage the funds for the purpose of financing the SHPRE Project was not adequately reconciled during the year 2008 and at balance date. The bank statement of this account recorded a balance of K475 at the balance date, whereas the general ledger recorded a balance of K134,000. The variance of K133,524 was not adequately reconciled or explained.

Further, out of K65 million initial commitments from the State and the K12.5 million allocated for the project, I understand that this particular project was not properly controlled and managed by the corporate management and some allegation of misappropriation of funds exist.

The Management had since advised that, *“An internal investigation was carried out during 2008 resulting in the project manager being terminated and committed to stand trial in the national court for the misappropriation of funds and stringent internal controls have been set up to properly account for these funds.”*

#### **11.0 Compliance with External Borrowings**

During 2006, the Company entered into an agreement and secured external borrowings to finance its capital projects and meet working capital requirements. These borrowings were subjected to a number of covenants, some of which were not complied with, although, this has not affected the availability of these facilities. In particular, the tax owing to IRC should be adequately reconciled and settled on a timely basis.

The Company Board and Management should understand and ensure compliance with all terms and conditions under these borrowings.

Management has since advised that, *“In terms of compliance under the external borrowings covenants the GST are currently settled on time with the exception of corporate taxes which undergo stringent review process by the tax agent before the correct tax can be determined and paid.”*

## **12.0 Information Technology - Effectiveness and Efficiency Review**

I undertook a general audit of the Information Technology (IT) Systems and made a number of observations on the efficiency and effectiveness of the current IT Systems;

- a) A formal IT Risk Assessment has not been performed at PNG Power and IT risks are handled in a reactive, rather than proactive, manner;
- b) Key issues identified by the management were communicated in an informal manner, including: feedback on control weaknesses and operational issues and communication between IT and the Board on key issues;
- c) While a high level backup policy exists, there are no detailed backup and recovery procedures for Oracle Financials, EasiPay, CHRIS 21 and Gentrack;
- d) PNG Power does not have a formally documented policy on its key aspects of IT operations, including Business Continuity Plan (BCP), Disaster Recovery Plan (DRP) Change Management Policy and IT Security;
- e) Files from Gentrack and EasiPay are manually imported into Oracle Financials on a regular basis. Security over these files were not ensured between the time of export from the source system and the time of import into Oracle Financials. The files were stored in directories that were accessible by approximately 100 end user accounts;
- f) Certain terminated employees still have access to the system. Furthermore, one (1) user had access to Oracle Financials as well as the network;
- g) Management do not perform formal, periodic user access, although these are believed to be done on an ad-hoc basis;
- h) Gentrack and EasiPay have weak password controls. The system did not support a strong password policy, whereby a minimum length, complexity and requirement to change passwords regularly was mandated; and
- i) The Windows network password and lockout policy did not meet best practice guidelines.

To maintain integrity and security over the Company's Management System and data, current IT Systems and operations required strengthening.

The Management has responded as follows; *“the Board and Management are aware of the inefficiencies and shortfalls of the current Oracle system, including the issues identified here. The Company is in the process of reviewing the current Oracle system and decision for any improvement replacement in its entirety is being considered at a strategic level.”*

## **67.2 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, 2009 was completed, however, my report under the *Companies Act, 1997* was delayed due to the Company’s non submission of the signed financial statements.

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, 2010 was in progress.

## **68. POST PNG LIMITED**

### **68.1 INTRODUCTION**

#### **68.1.1 Legislation**

Post PNG Limited was incorporated on 24 December, 1996 under the *Companies Act*. This Company was formed following the *National Executive Council 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 Papua New Guinea Telecommunication Authority (PANGTEL).

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the Post and Telecommunication Corporation (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.

#### **68.1.2 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;
- to manufacture and market postage stamps, philatelic products and other products for use in connection with services provided by Post PNG;
- to provide money transfer services within the Independent State of Papua New Guinea (PNG) and between PNG and other places;
- to engage in research relating to postal products and activities;
- to provide packet and parcel carrying services;
- to provide courier and freight services;
- to provide mail house, documents exchange and contract mail management services;
- to carry on any business or activity that is related, incidental, ancillary or complementary to the provision of domestic and international postal services;
- to 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

- to perform functions relating to the provision of postal services in a manner consistent with PNG's obligations under any convention.

## **68.2 AUDIT OBSERVATIONS**

### **68.2.1 Comments on Financial Statements**

In accordance with the provisions of the *Companies Act, 1997*, my report for the year ended 31 December, 2010 was issued on 13 May, 2011. The report did not contain any qualification.

## **69. TELIKOM (PNG) LIMITED AND ITS SUBSIDIARIES**

### **69.1 INTRODUCTION**

#### **69.1.1 Legislation**

Telikom (PNG) Limited was incorporated under the *Companies Act, 1997*. This Company was formed following the National Executive Council Decision No. 18/96 of 17 April, 1996 to corporatise the Post and Telecommunications Corporation (PTC) and to separate it into three (3) entities namely, Telikom (PNG) Limited, Post PNG Limited and Papua New Guinea Telecommunication Authority (PANGTEL).

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the Post and Telecommunication Corporation (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.

#### **69.1.2 Objectives of the Company**

The primary objectives of the Company are:

- to be the successor Company to the Telikom Divisions of Post and Telecommunication Corporation within the meaning of and for the purposes of the *Telikom (PNG) Limited Act*;
- to supply telecommunication services within Papua New Guinea and between Papua New Guinea and other places;
- to carry on any business or activity relating to telecommunications either inside or outside Papua New Guinea;
- to publish telecommunications directories, and to supply directory information service;
- to supply, install and maintain customer equipment and customer lines;
- to develop, manufacture, market and supply facilities and software;
- to supply value added services;
- to 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;
- to carry on any business incidental to telecommunication;

- unless otherwise advised to the contrary by the Minister acting in accordance with a directive of the National Executive Council:
  - (i) To act as an adviser to the Government of Papua New Guinea on matters relating to telecommunication activities in Papua New Guinea;
  - (ii) To represent Papua New Guinea as a member of, and actively participate, in international bodies concerned with the administration of telecommunication services;
  - (iii) To enter into international agreement relating to telecommunication activities;
  - (iv) To perform functions relating to the provision of telecommunication services in a way consistent with PNG's obligations under any convention; and
- to 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.

### **69.1.3 Subsidiaries**

The subsidiaries of Telikom (PNG) Limited are Kalang Advertising Limited and PNG Directories Limited. Comments in relation to these subsidiaries are contained in paragraphs 69A and 69B of this Report.

## **69.2 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, 2009 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, 2010 was in progress.



## **69A. KALANG ADVERTISING LIMITED (A SUBSIDIARY OF TELIKOM (PNG) LIMITED)**

### **69A.1 INTRODUCTION**

#### **69A.1.1 Legislation**

Kalang Advertising Limited was incorporated under the *Companies Act, 1997*. 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.

#### **69A.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.

### **69A.2 AUDIT OBSERVATIONS**

#### **69A.2.1 Comments on Financial Statements**

In accordance with the provisions of the *Companies Act, 1997*, my report on the Company's financial statements for the year ended 31 December, 2007 was issued on 20 June, 2011. The report contained a Disclaimer of Opinion.

#### **“BASIS FOR DISCLAIMER OF OPINION**

##### **Limitations on the scope of my audit**

##### ***Opening balances and comparative information***

Due to the disclaimer of opinion issued in respect of the year ended 31 December, 2006, and because of the other limitations as noted below, I was unable to satisfy myself as to the opening balances. I was also unable to quantify the effects of misstatements, if any, which might have a bearing on the results of operations and cash flows of the Company for the year ended 31 December, 2007. Further, I was unable to perform alternative and reasonable audit procedures to satisfy myself as to the measurement, accuracy and completeness of the opening balances.

### ***Accounting and Related Records***

Due to the state of the records maintained by the Company, I was not able to perform all my planned audit procedures. As a result, I was unable to form an opinion as to the existence, measurement, validity and completeness of the following account balances as at 31 December, 2007:

- Trade and Other Receivables K1,716,194;
- Inventory K 12,299;
- Fixed Assets K 459,222 ;
- Employee Leave Provision K 623,797 and
- Provision for Income Tax K 575,483

### ***Revenue and Expenses***

I have not been able to obtain sufficient and appropriate evidence in support of the total revenue and expenses of K2,944,483 and K2,305,100 respectively. Accordingly, I was unable to satisfy myself as to the occurrence, measurement, completeness and accuracy of revenue and expenses for the year.

### ***Related Parties***

While certain disclosures were made as required under *International Accounting Standards 24 (IAS 24) – “Related party Disclosures”*, I was not provided with sufficient appropriate audit evidence such as a list of directors’ interests transactions between the Company, its directors or director - related entities or other related parties. Consequently, I was unable to satisfy myself as to the completeness, accuracy or appropriateness of related party transactions as disclosed in Note 13 to the financial statements.

### ***Statutory Records***

I was not provided with the statutory records of the Company for the year ended 31 December, 2007. Accordingly, I was unable to determine whether all the requirements of the *Companies Act, 1997*, have been complied with and whether all statutory returns have been lodged with the Registrar of Companies.

### **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 Kalang Advertising Limited for the year ended 31 December, 2007.

### **OTHER MATTERS**

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

**Inherent Uncertainty Regarding Continuation as a Going Concern**

In addition to the opinion expressed above, I drew attention to Note 1(a) of the financial statements which disclose significant uncertainty as to whether the Company will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

**Obligation to Prepare Financial Statements**

Kalang Advertising Limited has not prepared their financial statements within five months after balance date and has consequently breached Section 179 (1) of the *Companies Act, 1997*.”

**69A.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 Company for the years ended 31 December, 2008 and 2009 were substantially completed and the results were being evaluated.

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, 2010 was in progress.

**69B. PNG DIRECTORIES LIMITED (FORMERLY E. H. O'BRIEN LIMITED  
- A SUBSIDIARY OF TELIKOM (PNG) LIMITED)**

**69B.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.

**69B.2 AUDIT OBSERVATIONS**

**69B.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act, 1997* to the members of the Company on the financial statements for the year ended 31 December, 2009 was issued on 21 September, 2010. The report did not contain any qualification.

**69B.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, 2010 was in progress.

## **SECTION C**

# **NATIONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES**



## **70. 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, 1997*, and these have been elaborated in Paragraph 56 of this Report.

As the Government of Papua New Guinea 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.





## **71. BOUGAINVILLE COPPER LIMITED**

### **71.1 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 Papua New Guinea. 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, 2010 the issued capital of the Company was 401,062,500 ordinary shares of K1 each, fully paid. Of these, the Government of Papua New Guinea held 76,430,809 ordinary shares of K1 each, or 19.06% of the total shares.

### **71.2 REPORT OF THE COMPANY'S AUDITORS**

A private firm of auditors have conducted the audit of the Company's financial statements including the accounts and records for the year ended 31 December, 2010 and the audit report was issued on 01 March, 2011. This report contained a Disclaimer of Opinion.

#### **“BASIS FOR DISCLAIMER OF OPINION**

The financial statements of Bougainville Copper Limited for the year ended 31 December, 2010 had been prepared with the inclusion of the Company's mine assets at their 1 January, 1991 book value, with a separate general impairment loss provision of K350 million having been made in 1991 for the value of the indeterminate level of deterioration, damage and pilferage of assets which has occurred in the period since the withdrawal of Company personnel from Bougainville in 1990. As explained in Note 1(b) to the financial statements, there continues to be considerable uncertainty surrounding the future of the Panguna mine, and the extent of deterioration, damage and pilferage of the Company's assets on Bougainville. While the directors have made this impairment provision in good faith based on the limited information available to them, it must be recognised that the actual extent of the necessary write-downs can only be established when access to the mine site by appropriate company representatives is again possible or when a reliable market price for the Panguna assets can be determined.

In our opinion, providing for the probable impairment loss from deterioration, damage or pilferage, is the appropriate accounting treatment for the actual impairment which will have occurred in the period to 31 December, 2010.

However, as the actual extent of such impairment can only be established after the Company regains access to the mine site or a reliable market price can be determined, we recognise that, at present, the recoverable amount of the Company's assets on Bougainville is not capable of reliable measurement or estimation. Accordingly, the impairment provision made by directors in 1991 may eventually prove to be above or below the sum which is necessary to reflect this impairment. In the absence of all the necessary information and explanations we require, and for the reasons set out above, we are unable to form an opinion as to whether or not the impairment provision against the carrying amount of mine assets of K350 million is adequate or not. Accordingly, we are unable to form an opinion as to whether or not the carrying value of the mine assets, as disclosed in these accounts, is properly stated.

The Directors have established a provision of K22.1 million for compensation, rehabilitation and stabilisation for which the company may be liable. The Company's actual liability for these costs is subject to significant uncertainty, and we are unable to form an opinion as to whether the provision is fairly stated.

The mine assets, which represent 49% of the book value of total assets and 54% of the book value of net tangible assets, and the liability for compensation, rehabilitation and stabilisation, are of fundamental importance to the presentation of the accounts. In view of these matters over the carrying amount of the mine assets and the liability for compensation, rehabilitation and stabilisation as set out above, we are unable to form an opinion as to whether or not the financial statements give a true and fair view of the financial position of the Company as at 31 December, 2010 and its performance for the year ended on that date.

#### **DISCLAIMER OF AUDIT OPINION**

Because of the significance of the matters described in the basis for disclaimer of auditor's opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Bougainville Copper Limited for the year ended 31 December, 2010.

#### **Report on Other Legal and Regulatory Requirements**

The *Papua New Guinea Companies Act, 1997* requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

In our opinion proper accounting records have been kept by the company, so far as appears from our examination of those records; with the exception of the matters described above we have obtained all the information and explanations we have required; and in conducting our audit we followed applicable independence requirements of Certified Practising Accountants of Papua New Guinea."

## **72. CTP (PNG) LIMITED (FORMERLY PACIFIC RIM PLANTATIONS LIMITED)**

### **72.1 INTRODUCTION**

Higaturu Oil Palms Limited was incorporated under the *Companies Act, 1997*. The Company was established to develop and operate oil palm estates and oil palm mills, on land leased from the Papua New Guinea Government at Popondetta. Its name was changed to Pacific Rim Plantations Limited on 21 June, 1995. The name Pacific Rim Plantations was further changed to CTP (PNG) Limited on 25 May, 2005.

At 30 April, 2010, the authorised share capital of the Company was K100 million and K73.3 million had been issued, comprising 14,661,915 'A' Ordinary Shares of K1 each, 55,466,785 'B' Ordinary Shares of K1 each and 3,184,201 'C' Ordinary Shares of K1 each. Of these, the Independent Public Business Corporation held 14,661,915 'A' Ordinary Shares of K1 each representing a 20% shareholding.

### **72.2 REPORT OF THE COMPANY'S AUDITORS**

A private firm of auditors reported on the Company's financial statements for the year ended 30 April, 2010 on 16 August, 2010. I have examined the report and it contained an Emphasis of Matter.

#### **“Emphasis of Matter – Financial Statement is not signed by the Directors**

CTP Holdings Pty Limited, 80% shareholders of CTP (PNG) Limited sold their shareholding to New Britain Palm Oil Limited effective from 30 April, 2010. All the CTP Holdings Pte Limited nominated directors resigned on that date. As a result, the Consolidated Special Purpose Financial Statements has been signed by the representatives of the management of CTP Holdings Pte Limited. Due to the significance of the matter, we deem it fit that we draw attention to this fact. Our audit opinion is not qualified in this respect. ”

## **73. GOGOL REFORESTATION COMPANY LIMITED**

### **73.1 INTRODUCTION**

Gogol Reforestation Company Limited was incorporated under the *Companies Act, 1997*. The objective of the Company is to be involved in reforestation.

**73.2** 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 Papua New Guinea held 98,001 'B' class ordinary shares of K1.00 each, representing 49% of the issued Capital at a cost of K98,001.

### **73.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the audited financial statements of the Company for the year ended 31 December, 2010 had not been submitted for my verification.

## **74. OK TEDI MINING LIMITED**

### **74.1 INTRODUCTION**

Ok Tedi Mining Limited, formerly Mt. Fubilan Development Company Limited, was incorporated under the *Companies Act, 1997*. The main function of the Company is mining.

**74.2** At 31 December, 2010, the issued and fully paid up capital of the Company was K237,929,000 (235,000,000 Ordinary Shares with no par value). Of these, the Government of Papua New Guinea held fully paid 47,000,000 Ordinary Shares valued at K47,000,000 representing 20% of the Ordinary Share capital.

### **74.3 REPORT OF THE COMPANY'S AUDITORS**

A private firm of auditors reported on the accounts of the Company and the Group for the year ended 31 December, 2010 and the report was issued on 22 February, 2011. I sighted the audit report and it did not contain any qualification.

## **75. PACIFIC FORUM LINE LIMITED**

### **75.1 INTRODUCTION**

Pacific Forum Line Limited was incorporated in Western Samoa. The main function of the Company is to provide shipping services within the South Pacific Region. The Company has a subsidiary, Pacific Forum Line (NZ) Limited, which is the operating arm of the Company located in Auckland, New Zealand.

At 31 March, 2010 the issued and fully paid up Capital of the Company comprised 120,000 'A' Class ordinary shares of NZ\$0.64 (New Zealand Dollar) each and 20,789,582 'B' Class ordinary shares of NZ\$0.64 each. Of these, the Government of Papua New Guinea held 10,000 'A' Class ordinary shares and 6,037,524 'B' Class ordinary shares of NZ\$0.64 each, representing 8.33% of 'A' Class and 29.04% of 'B' Class ordinary shareholding.

### **75.2 REPORT OF THE COMPANY'S AUDITORS FOR 2010**

A private firm of Auditors have conducted the audit of the Company's financial statements for the year ended 31 March, 2010 and the report was issued on 16 August, 2010. I sighted the audit report and it did not contain any qualification.

## **76. PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED**

### **76.1 INTRODUCTION**

#### **76.1.1 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 Papua New Guinea, 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.

#### **76.1.2 Objectives of PNG Sustainable Development Program Limited**

The objective of the company is to promote and improve the quality of life of current and future generations of the people of Papua New Guinea, 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 Papua New Guinea in partnership with the government, churches and other non-government and business partners.

#### **76.1.3 Functions of PNG Sustainable Development Program Limited**

The primary functions of the program are:

- to promote sustainable development in Western Province and Papua New Guinea more generally; and

- to manage the Long Term Fund to support a high level of development expenditure in Western Province in particular and Papua New Guinea in general for at least 40 years after the closure of the Ok Tedi Mine.

## **76.2 REPORT OF THE COMPANY'S AUDITORS**

A private firm of auditors conducted the audit of the company and of the group's financial statements including the accounts and records for the year ended 31 December, 2010 and the report was issued on 05 April, 2011. This report did not contain any qualification.



## **SECTION D**

### **PROBLEM AUDITS**



## **77. FOREWORD**

This section of my Report deals with problem audits. Problem audits denote audit of entities in respect of which I have not been able to carry out audits for circumstances detailed in the respective paragraphs. The two classifications of audits that fall within this category are audits in respect of dormant entities and those that have been in arrears.

### **77.1 DORMANT ENTITIES**

Dormant entities are those that have ceased operations for a number of years and are either in the process of deregistration or deregistered at the time of preparing this Report. In essence, most of these entities do not physically exist, and neither are any officers around to provide information regarding the financial statements.

### **77.2 EXCLUSION OF ENTITIES FROM FUTURE REPORTS**

In my prior years' Reports to Parliament, I have indicated that if the status of some Dormant Companies remained unchanged, I would exclude them from my future Reports. Unisearch Limited, a subsidiary of University of Papua New Guinea was the only entity excluded in this Report.

During 2010/2011 audit cycle, audit of the following Companies were transferred to Provincial Government Audit Branch and as such these entities would be excluded (once all outstanding audits are cleared) in my future Part IV Reports to Parliament and would be reported in my Part III Report.

- Motu Koitabu Council and its Subsidiaries
- Tabudubu Limited (Subsidiary of Motu Koitabu Council)

## **78. AUDITS IN ARREARS**

### **78.1 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 *Public Finances (Management) Act, 1995*. 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 (2010) 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.

### **78.2 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.

### 78.3 LEGISLATIVE REQUIREMENTS

To ensure the timely preparation of financial statements, Section 63 (1) of the *Public Finances (Management) Act, 1995*, 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 26 entities as depicted in Schedule B 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 *Public Finances (Management) Act, 1995*. 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 *Public Finances (Management) Act, 1995*, 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.

### 78.4 CURRENT YEAR AUDITS (2010 AUDITS)

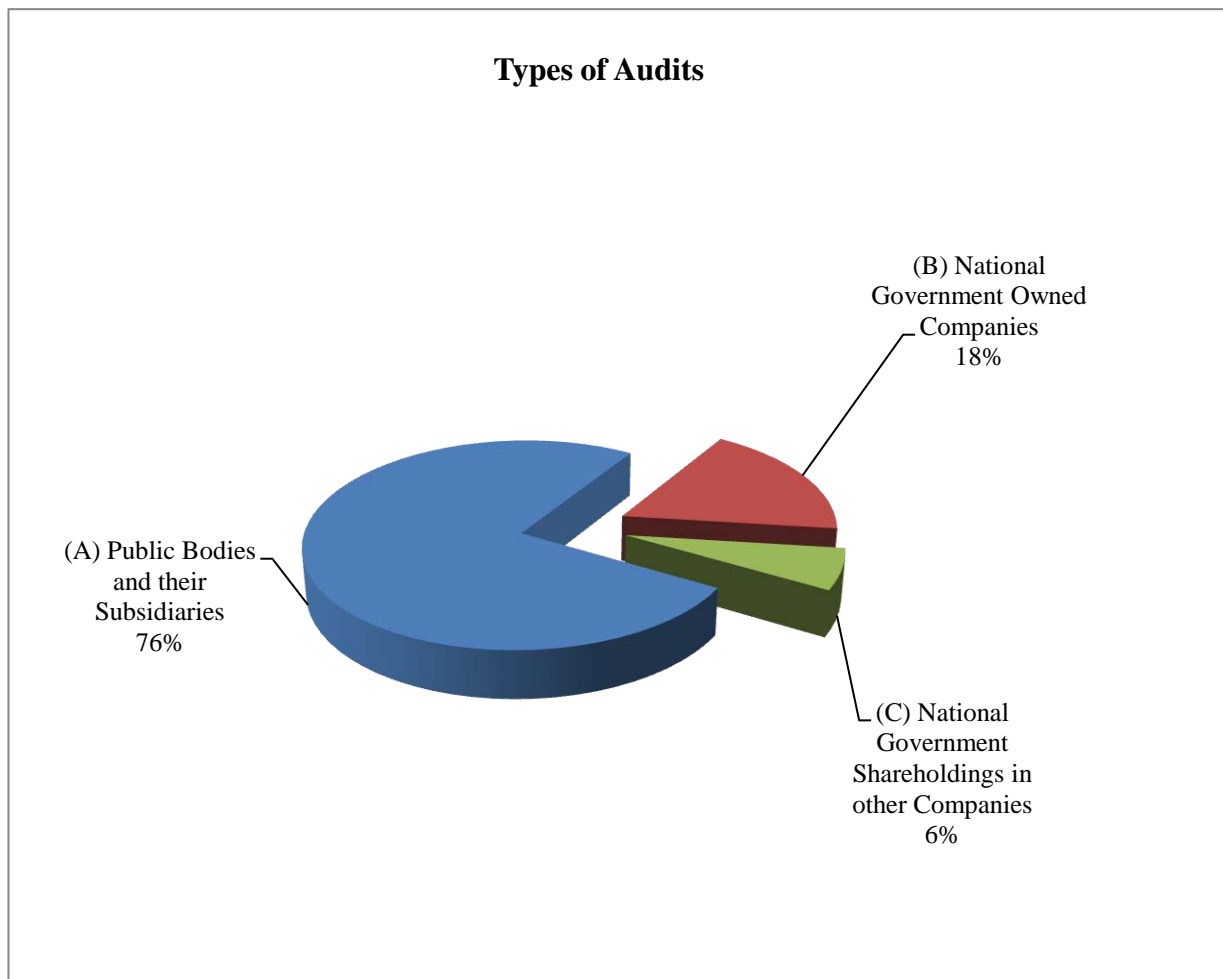
Entities totalling 88 subject to audit by the Auditor-General comprise 71 Public Bodies and their subsidiaries, 17 National Government owned companies, and 6 companies in which the National Government has share holdings (referred to as Section 'C' Companies). **Table 1** and **Chart 1** below provide details of these.

## TYPES OF AUDIT

**Table 1**

Section	Types of Audit	Number of Entities	
		2010/2011	2009/2010
(A)	Public Bodies and their Subsidiaries	71	75
(B)	National Government Owned Companies	17	13
(C)	National Government Shareholdings in other Companies	6	6
		<b>94</b>	<b>94</b>

**CHART 1**



## 78.5 STATUS OF CURRENT YEAR AUDITS

Each of the 82 entities, excluding the Ceased Entities, Section 'C' Companies and audit portfolios transferred to Provincial Government Audit Branch are subject to audit and required under Section 63 (4) of the *Public Finances (Management) Act, 1995*, to submit annual financial statements for audit. Information available in my Office shows that only 33 entities (Schedule A) submitted their financial statements for 2010 for audit up to the time of preparing this report. A total of 49 entities (Schedule A) (excluding the ceased entities and Section 'C' Companies and audit portfolios transferred to Provincial Government Audit Branch) have not submitted their 2010 financial statements for audit in 2011. It could therefore be logically concluded that, about 60% of the public bodies might not have submitted their annual reports and financial statements for 2010 together with my reports on them, to the respective Ministers for tabling in the National Parliament on or before June 2011.

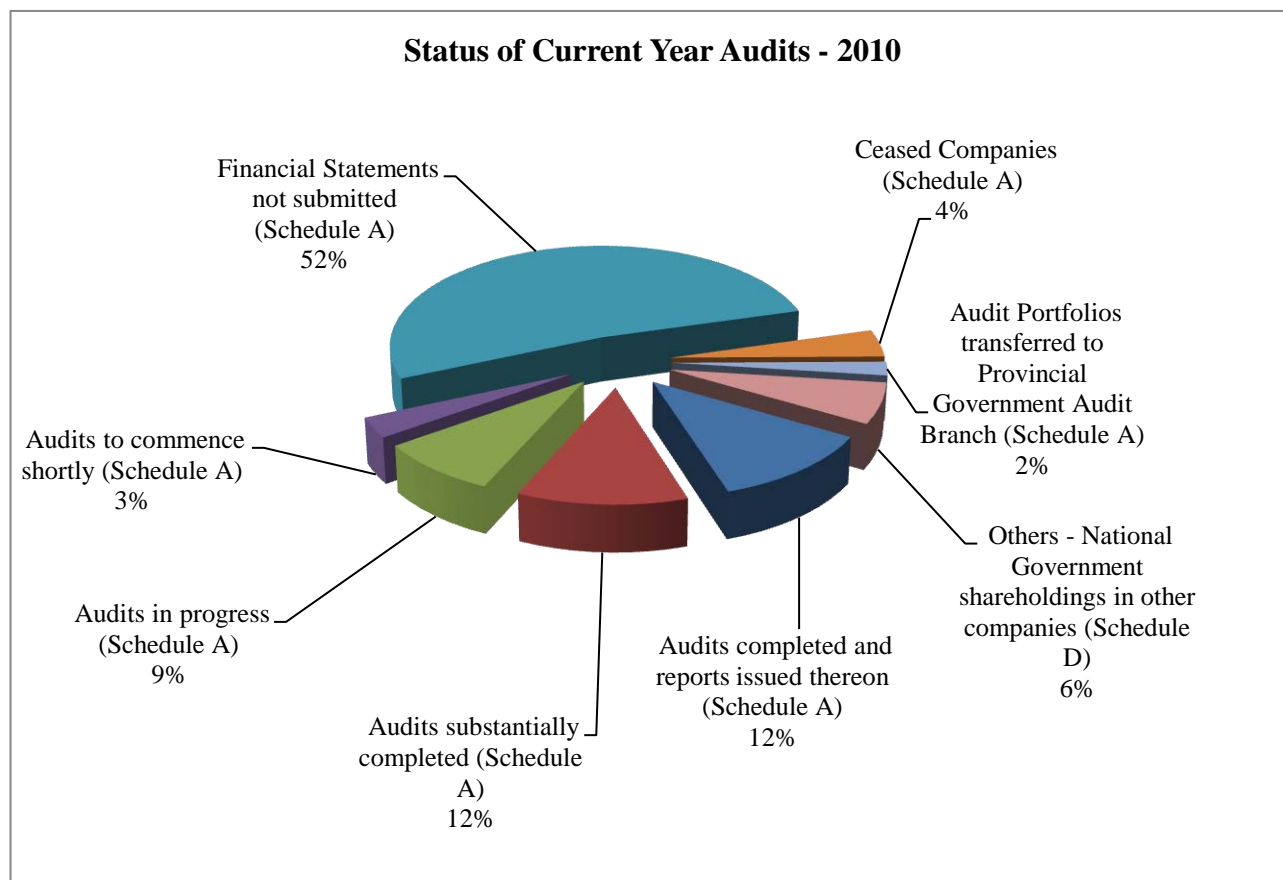
**Table 2** and **Chart 2** shown below, and **Schedule A** attached show the status and the details of the current year audits planned for in 2010.

## STATUS OF CURRENT YEAR AUDITS 2010

**Table 2**

No.	Status of Current Year Audits - 2010	Number of Entities	
		2010	2009
(1)	Audits completed and reports issued thereon (Schedule A)	11	11
(2)	Audits substantially completed (Schedule A)	11	10
(3)	Audits in progress (Schedule A)	8	7
(4)	Audits to commence shortly (Schedule A)	3	8
(5)	Financial Statements not submitted (Schedule A)	49	48
(6)	Ceased Companies (Schedule A)	4	2
(7)	Audit Portfolios transferred to Provincial Government Audit Branch (Schedule A)	2	2
(8)	Others - National Government shareholdings in other companies (Schedule D)	6	6
		<b>94</b>	<b>94</b>

**Chart 2**





## **78.6 AUDITS IN ARREARS (2009 AND PRIOR YEARS)**

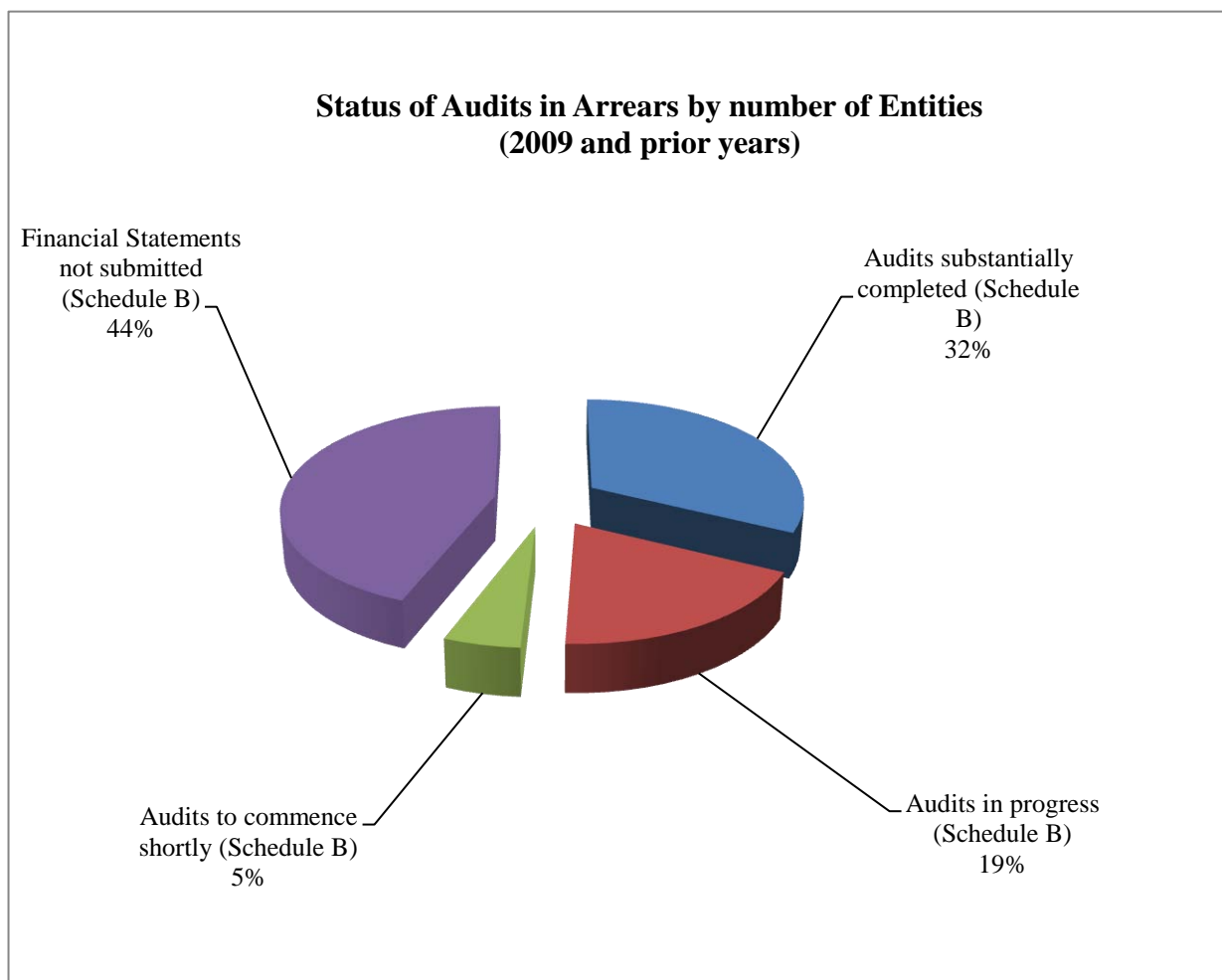
As stated earlier in paragraph 78.5, records available in my Office show that a total of 59 entities (117 audits) were in the audit in arrears category due to non-submission of financial statements. **Table 3** and **Chart 3** shown below, and **Schedule B** attached provide more details of these.

**STATUS OF AUDITS IN ARREARS BY NUMBER OF ENTITIES  
(2009 AND PRIOR YEARS)**

**Table 3A**

No.	Status of Audits in Arrears ( 2009 and Prior Years)	Number of Entities	
		2010 Report	2009 Report
(1)	Audits substantially completed (Schedule B)	19	20
(2)	Audits in progress (Schedule B)	11	18
(3)	Audits to commence shortly (Schedule B)	3	9
(4)	Financial Statements not submitted (Schedule B)	26	23
		<b>59</b>	<b>70</b>

**Chart 3A**

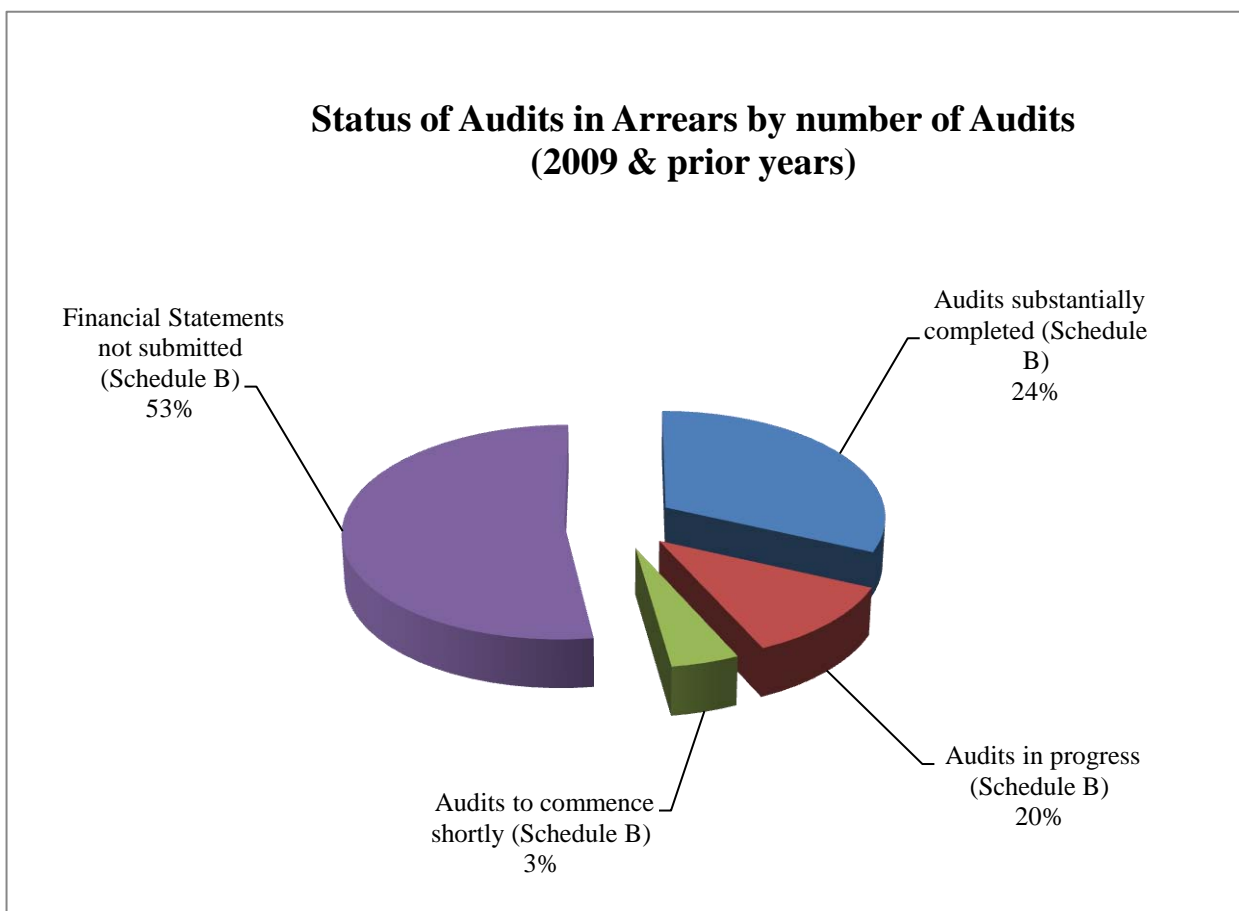


**STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS  
(2009 AND PRIOR YEARS)**

**Table 3B**

No.	Status of Audits in Arrears (2009 & prior years)	Number of Audits	
		2010 Report	2009 Report
(1)	Audits substantially completed (Schedule B)	28	26
(2)	Audits in progress (Schedule B)	23	35
(3)	Audits to commence shortly (Schedule B)	4	18
(4)	Financial Statements not submitted (Schedule B)	62	58
		<b>117</b>	<b>137</b>

**Chart 3B**



## **78.7 LONG OUTSTANDING FINANCIAL STATEMENTS**

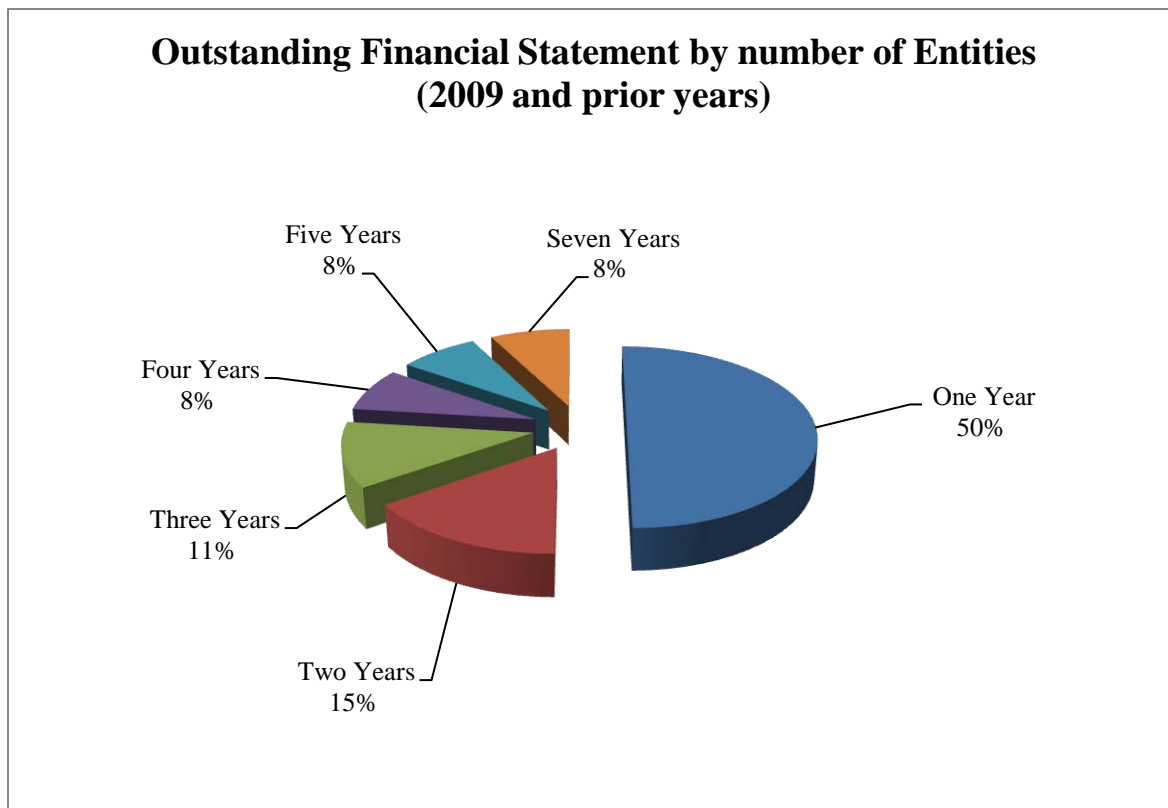
During this Audit Cycle (2010/2011) 26 audit entities were in the arrears category, an increase of 3 entities compared to prior year (2009). Of these 26 entities, 62 financial statements for period ranging from one year to seven years have still not been submitted. In other words, they still have financial statements outstanding for the years from 2002 to 2009. 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  
(2009 AND PRIOR YEARS)**

**Table 4A**

No.	Years Outstanding by Entities (Schedule C)	Number of Entities	
		2010 Report	2009 Report
(1)	One Year	13	12
(2)	Two Years	4	3
(3)	Three Years	3	1
(4)	Four Years	2	3
(5)	Five Years	2	1
(6)	Six Years	0	2
(7)	Seven Years	2	1
		<b>26</b>	<b>23</b>

**Chart 4A**

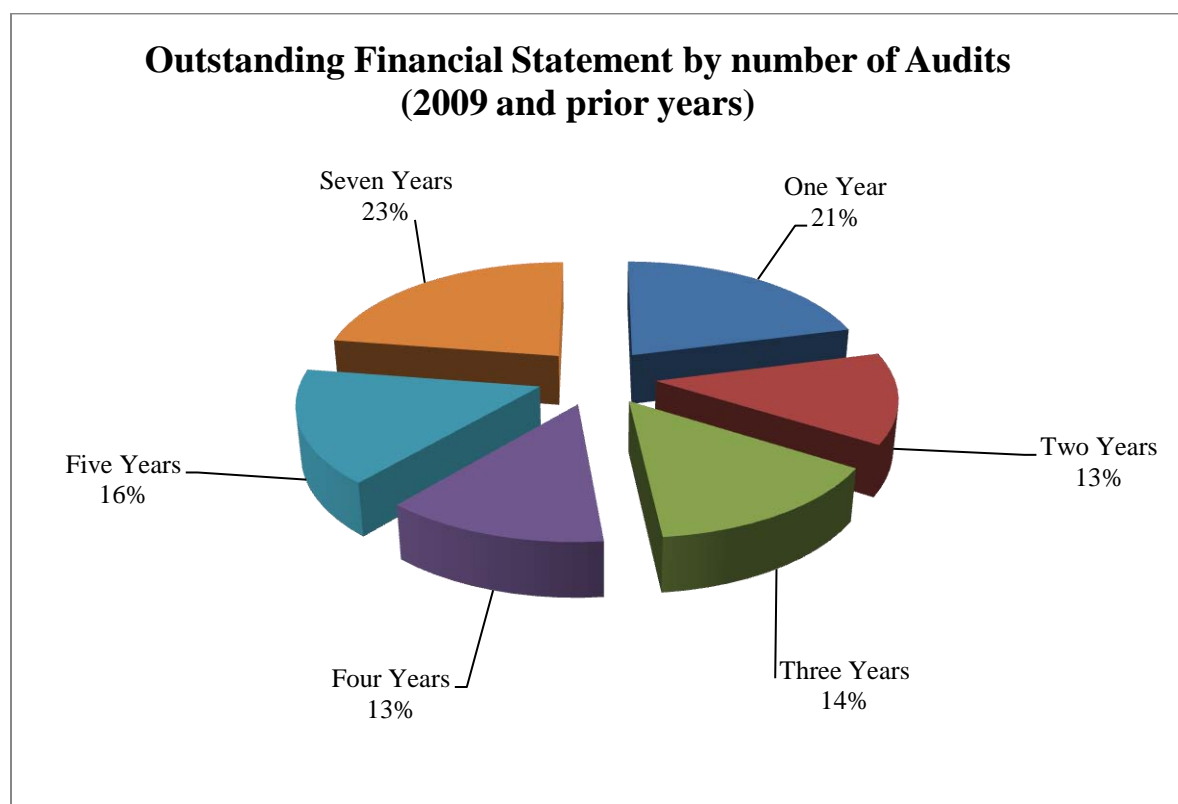


**LONG OUTSTANDING FINANCIAL STATEMENTS  
BY NUMBER OF AUDITS  
(2009 AND PRIOR YEARS)**

**Table 4B**

No.	Years Outstanding by Audits	Number of Audits	
		2010 Report	2009 Report
(1)	One Year	13	12
(2)	Two Years	8	6
(3)	Three Years	9	3
(4)	Four Years	8	12
(5)	Five Years	10	5
(6)	Six Years	0	12
(7)	Seven Years	14	8
		<b>62</b>	<b>58</b>

**Chart 4B**

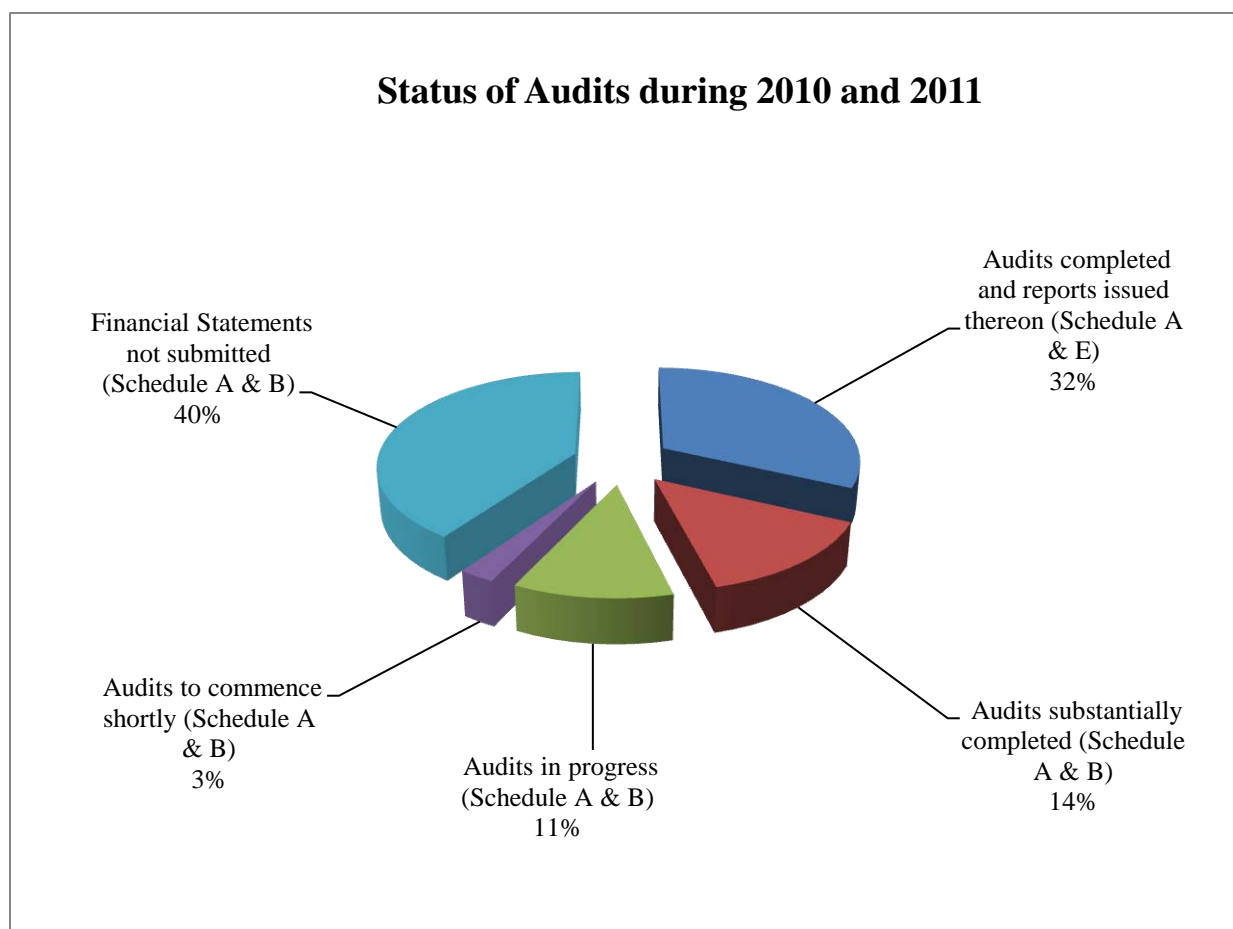


## STATUS OF AUDITS DURING 2010 AND 2011

**Table 5**

No.	Status of Audits	Number of Audits	
		2010/ 2011	2009/ 2010
(1)	Audits completed and reports issued thereon (Schedule A & E)	87	78
(2)	Audits substantially completed (Schedule A & B)	39	36
(3)	Audits in progress (Schedule A & B)	31	42
(4)	Audits to commence shortly (Schedule A & B)	7	26
(5)	Financial Statements not submitted (Schedule A & B)	111	106
		<b>275</b>	<b>288</b>

**Chart 5**







## **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 Papua New Guinea and the Secretary for the continuous interest shown in my work.

**SIGNED AT WAIGANI THIS 28<sup>TH</sup> DAY OF OCTOBER  
TWO THOUSAND AND ELEVEN**

**PHILIP NAUGA**

*Acting Auditor-General of Papua New Guinea*

## **Schedule 'A'**

### **Status of Current Year (2010) Audit**

#### **(i) AUDITS COMPLETED AND REPORTS ISSUED THEREON**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	2	Bank of Papua New Guinea
2	A	10	Independent Consumer and Competition Commission
3	A	11A	Aquarius No. 21 Limited
4	A	11B	General Business Trust
5	A	11D	Port Moresby Private Hospital Limited
6	A	13	Investment Promotion Authority
7	A	19	National Agricultural Research Institute
8	A	38	Ombudsman Commission of Papua New Guinea
9	A	52	Tourism Promotion Authority
10	B	61B	PNG Air Services Limited
11	B	68	Post PNG Limited

#### **(ii) AUDITS SUBSTANTIALLY COMPLETED**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	5	Cocoa Board of Papua New Guinea and its Subsidiary
2	A	5A	Cocoa Stabilisation Fund
3	A	11	Independent Public Business Corporation and its Subsidiary
4	A	11C	PNG Dams Limited
5	A	15	Legal Training Institute
6	A	33	National Roads Authority
7	A	41	Papua New Guinea Institute of Public Administration
8	A	47	Parliamentary Members' Retirement Benefits Fund
9	A	49	Public Curator of Papua New Guinea
10	B	61A	Civil Aviation Development Investment Programme
11	B	62	National Petroleum Company of Papua New Guinea (Kroton) Limited

#### **(iii) AUDITS IN PROGRESS**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	44	Papua New Guinea Radio Communication and Telecommunications Technical Authority (PANGTEL)
2	A	51	Small Business Development Corporation
3	B	59	Mineral Resources Development Company Limited
4	B	63	NCD Water and Sewerage Limited (Eda Ranu)
5	B	67	PNG Power Limited
6	B	69	Telikom (PNG) Limited and its Subsidiaries
7	B	69A	Kalang Advertising Limited
8	B	69B	PNG Directories Limited

**(iv) AUDITS TO COMMENCE SHORTLY**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	28	National Maritime Safety Authority
2	A	31	National Research Institute
3	A	36	National Youth Commission

**(iv) FINANCIAL STATEMENTS NOT SUBMITTED**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>Last Report Issued For</b>	<b>Date of Report</b>
1	A	3	Border Development Authority	2009	04.02.11
2	A	4	Civil Aviation Safety Authority of Papua New Guinea	2007	16.05.11
3	A	6	Cocoa Coconut Institute Limited of Papua New Guinea	2007	30.09.10
4	A	7	Coffee Industry Corporation and its Subsidiaries	2009	24.11.10
5	A	7A	Coffee Industry Fund	2009	24.11.10
6	A	7B	Patana No. 61 Limited	2009	24.11.10
7	A	8	Government Printing Office	2008	30.03.11
8	A	9	Independence Fellowship Trust	2009	25.05.10
9	A	12	Industrial Centres Development Corporation	2008	18.11.10
10	A	14	Kokonas Indastri Koporesen and its Subsidiaries	2009	27.06.11
11	A	14A	Papua New Guinea Coconut Extension Fund	2009	27.06.11
12	A	14C	Papua New Guinea Coconut Research Fund	2009	27.06.11
13	A	16	Mineral Resources Authority	2008	12.08.10
14	A	18	National Agriculture Quarantine and Inspection Authority	2009	04.04.11
15	A	20	National AIDS Council	2007	22.06.11
16	A	21	National Broadcasting Corporation	2007	31.05.11
17	A	22	National Capital District Commission and its Subsidiaries	2008	27.06.11
18	A	22A	National Capital District Botanical Enterprises Limited	No report issued	
19	A	22B	Port Moresby City Development Enterprises Limited	No report issued	
20	A	23	National Cultural Commission	2009	11.05.11
21	A	24	National Economic and Fiscal Commission	2006	01.07.09
22	A	25	National Fisheries Authority	2008	04.02.11
23	A	26	National Gaming Control Board	2007	30.06.11
24	A	27	National Housing Corporation	2007	30.06.10
25	A	29	National Museum and Art Gallery	2008	30.06.11
26	A	30	National Narcotics Bureau	2002	29.06.11
27	A	32	National Road Safety Council	2008	31.03.10
28	A	34	National Training Council	2010	30.06.11
29	A	35	National Volunteer Service	2006	01.10.08
30	A	37	Oil Palm Industry Corporation	2007	11.05.10
31	A	39	Papua New Guinea Forest Authority	2007	20.01.11
32	A	40	Papua New Guinea Institute of Medical Research	2008	31.12.10
33	A	42	Papua New Guinea Maritime College	2007	28.03.11
34	A	43	Papua New Guinea National Institute of Standards and Industrial Technology	2009	23.06.11
35	A	45	Papua New Guinea Sports Foundation	2002	25.05.10
36	A	46	Papua New Guinea University of Technology and its Subsidiary	2008	30.03.11

No.	Section	Para. No.	Entity	Last Report Issued For	Date of Report
37	A	46A	Unitech Development and Consultancy Company Limited	2006	12.02.10
38	A	48	PNG Waterboard	2008	25.05.11
39	A	50	Security Industries Authority	2009	26.03.10
40	A	53	University of Goroka and its Subsidiary	2006	28.08.09
41	A	53A	Unigor Consultancy Limited	No report issued	
42	A	54	University of Natural Resources and Environment (Former University of Vudal)	2008	05.11.10
43	A	55	University of Papua New Guinea and its Subsidiary	2006	14.10.08
44	A	55A	Univentures Limited	No report issued	
45	B	57	Air Niugini Limited	2008	05.05.10
46	B	58	Livestock Development Corporation Limited	2008	04.02.11
47	B	60	Motor Vehicles Insurance Limited	2007	31.07.09
48	B	61	National Airports Corporation Limited	No report issued	
49	B	66	Papua New Guinea Ports Corporation Limited	2008	07.10.10

**(vi) NON OPERATIONAL ENTITES/ CEASED COMPANIES**

No.	Section	Para. No.	Entity	Last Report Issued For	Date of Issued Report
1	A	11E	Privatisation (Gardens Hills) Limited	2007	21.07.11
2	A	14B	Papua New Guinea Coconut Industry Fund	2009	27.06.11
3	B	64	Niugini Insurance Corporation Limited	No report issued	
4	B	65	North Fly Highway Development Company Limited	No report issued	

**(vii) AUDIT PORTFOLIOS TRANSFERRED TO PROVINCIAL GOVERNMENT AUDIT BRANCH**

No.	Section	Para. No.	Entity	Last Report
1	A	17	Motu - Koitabu Council and its Subsidiary	No report issued
2	A	17A	Tabudubu Limited	No report issued

**Schedule 'B'**

**STATUS OF AUDITS IN ARREARS (2009 AND PRIOR YEARS)**

**(i) AUDITS SUBSTANTIALLY COMPLETED**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>Year</b>	<b>No. of Audits</b>
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	2008	1
2	A	5	Cocoa Board of Papua New Guinea and its Subsidiary	2009	1
3	A	5A	Cocoa Stabilisation Fund	2009	1
4	A	11C	PNG Dams Limited	2004 - 2009	6
5	A	12	Industrial Centres Development Corporation	2009	1
6	A	20	National AIDS Council	2008 & 2009	2
7	A	32	National Road Safety Council	2009	1
8	A	37	Oil Palm Industry Corporation	2008	1
9	A	42	Papua New Guinea Maritime College	2008	1
10	A	49	Public Curator of Papua New Guinea	2009	1
11	A	53	University of Goroka	2007 & 2008	2
12	A	54	University of Natural Resources and Environment (Former University of Vudal)	2009	1
13	A	55A	Univentures Limited	2007	1
14	B	57	Air Niugini Limited	2009	1
15	B	59	Mineral Resources Development Company Limited	2009	1
16	B	60	Motor Vehicles Insurance Limited	2008 & 2009	2
17	B	67	PNG Power Limited	2009	1
18	B	69	Telikom (PNG) Limited and its Subsidiary	2009	1
19	B	69A	Kalang Advertising Limited	2008 & 2009	2
					<b><u>28</u></b>

**(ii) AUDITS IN PROGRESS**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>Year</b>	<b>No. of Audits</b>
1	A	16	Mineral Resource Authority	2009	1
2	A	17	Motu Koitabu Council	2003 - 2006	4
3	A	21	National Broadcasting Corporation	2008	1
4	A	22A	National Capital District Botanical Enterprises Limited	2003 - 2008	6
5	A	22B	Port Moresby City Development Enterprises Limited	2002 - 2005	4
6	A	25	National Fisheries Authority	2009	1
7	A	26	National Gaming Control Board	2008	1
8	A	48	PNG Waterboard	2009	1
9	A	55	University of Papua New Guinea and its Subsidiary	2007	1
10	A	55A	Univentures Limited	2008 & 2009	2
11	B	66	Papua New Guinea Ports Corporation Limited	2009	1
					<b><u>23</u></b>

**(iii) AUDITS TO COMMENCE SHORTLY**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>Year</b>	<b>No. of Audits</b>
1	A	6	Cocoa Coconut Institute Limited of Papua New Guinea	2008 & 2009	2
2	A	27	National Housing Corporation	2008	1
3	A	29	National Museum & Art Gallery	2009	<u>1</u>
					<u>4</u>

**(iv) FINANCIAL STATEMENTS NOT SUBMITTED**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>Year</b>	<b>No. of Audits</b>
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	2009	1
2	A	8	Government Printing Office	2009	1
3	A	11C	PNG Dams Limited	2002 & 2003	2
4	A	17A	Tabudubu Limited	2003 - 2006	4
5	A	21	National Broadcasting Corporation	2009	1
6	A	22	National Capital District Commission and its Subsidiaries	2009	1
7	A	22A	National Capital District Botanical Enterprises Limited	2009	1
8	A	22B	Port Moresby City Development Enterprises Limited	2006 - 2009	4
9	A	24	National Economic and Fiscal Commission	2007 - 2009	3
10	A	26	National Gaming Control Board	2009	1
11	A	27	National Housing Corporation	2009	1
12	A	30	National Narcotics Bureau	2003 - 2009	7
13	A	35	National Volunteer Service	2007 - 2009	3
14	A	37	Oil Palm Industry Corporation	2009	1
15	A	39	Papua New Guinea Forest Authority	2008 & 2009	2
16	A	40	Papua New Guinea Institute of Medical Research	2009	1
17	A	42	Papua New Guinea Maritime College	2009	1
18	A	45	Papua New Guinea Sports Foundation	2003 - 2009	7
19	A	46	Papua New Guinea University of Technology and its Subsidiary	2009	1
20	A	46A	Unitech Development and Consultancy Company Limited	2007 - 2009	3
21	A	49	Public Curator of Papua New Guinea	2004 - 2008	5
22	A	53	University of Goroka and its Subsidiary	2009	1
23	A	53A	Unigor Consultancy Limited	2005 - 2009	5
24	A	55	University of Papua New Guinea	2008 & 2009	2
25	A	58	Livestock Development Corporation Limited	2009	1
26	B	61	National Airports Corporation Limited	2008 & 2009	<u>2</u>
					<u>62</u>

**Schedule 'C'**

**LONG OUTSTANDING FINANCIAL STATEMENTS (2009 & PRIOR YEARS)**

**(i) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN ONE (1) YEAR**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>No. of Audits</b>
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	1
2	A	8	Government Printing Office	1
3	A	21	National Broadcasting Corporation	1
4	A	22	National Capital District Commission and its Subsidiary	1
5	A	22A	National Capital District Botanical Enterprises Limited	1
6	A	26	National Gaming Control Board	1
7	A	27	National Housing Corporation	1
8	A	37	Oil Palm Industry Corporation	1
9	A	40	Papua New Guinea Institute of Medical Research	1
10	A	42	Papua New Guinea Maritime College	1
11	A	46	Papua New Guinea University of Technology	1
12	A	53	University of Goroka	1
13	B	58	Livestock Development Corporation Limited	1
				<u>13</u>

**(ii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN TWO (2) YEARS**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>No. of Audits</b>
1	A	11C	PNG Dams Limited	2
2	A	39	Papua New Guinea Forest Authority	2
3	A	55	University of Papua New Guinea	2
4	B	61	National Airports Corporation Limited	2
				<u>8</u>

**(iii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN THREE (3) YEARS**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>No. of Audits</b>
1	A	24	National Economic and Fiscal Commission	3
2	A	35	National Volunteer Service	3
3	A	46A	Unitech Development and Consultancy Company Limited	3
				<u>9</u>

**(iv) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FOUR (4) YEARS**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>No. of Audits</b>
1	A	17A	Tabudubu Limited	4
2	A	22B	Port Moresby City Development Enterprises Limited	4
				<u>8</u>

**(v) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FIVE (5) YEARS**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>No. of Audits</b>
1	A	49	Public Curator of Papua New Guinea	5
2	A	53A	Unigor Consultancy Limited	<u>5</u>
				<b><u>10</u></b>

**(vi) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN SEVEN (7) YEARS**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>No. of Audits</b>
1	A	30	National Narcotics Bureau	7
2	A	45	Papua New Guinea Sports Foundation	<u>7</u>
				<b><u>14</u></b>



**Schedule 'D'**

**NON OPERATIONAL ENTITIES AND OTHERS**

**(A) WINDING UP/ CEASED OPERATIONS**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>Last Year of Audit</b>
1	A	11E	Privatisation (Gardens Hills) Limited	2007
2	A	14B	Papua New Guinea Coconut Industry Fund	2008
3	B	64	Niugini Insurance Corporation Limited	2008
4	B	65	North Fly Highway Development Company Limited	2000

**(B) AUDIT PORTFOLIOS TRANSFERRED TO PROVINCIAL GOVERNMENT AUDIT BRANCH**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>Last Year of Audit</b>
1	A	17	Motu Koitabu Council & its Subsidiary	2006
2	A	17A	Tabudubu Limited	2006

**(C) OTHERS - NATIONAL GOVERNMENT SHAREHOLDERS IN OTHER COMPANIES**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>	<b>Remarks</b>
1	C	71	Bougainville Copper Limited	2010 Completed
2	C	72	CTP (PNG) Limited (Former Pacific Rim)	2010 Completed
3	C	73	Gogol Reforestation Company Limited	Audited financial statements not submitted
4	C	74	Ok Tedi Mining Limited	2010 Completed
5	C	75	Pacific Forum Line Limited	2010 Completed
6	C	76	PNG Sustainable Development Program Limited	2010 Completed

## Schedule 'E'

### 2009 AUDITS - COMPLETED DURING 2010/2011

No.	Section	Para. No.	Entity
1	A	3	Border Development Authority
2	A	7	Coffee Industry Corporation Limited and its Subsidiaries
3	A	7A	Coffee Industry Fund
4	A	7B	Patana No. 61 Limited
5	A	11	Independent Public Business Corporation and its Subsidiaries
6	A	11A	Aquarius No. 21 Limited
7	A	11D	Port Moresby Private Hospital Limited
8	A	13	Investment Promotion Authority
9	A	14	Kokonasi Industri Koproses and its Subsidiaries
10	A	14A	Papua New Guinea Coconut Extension Fund
11	A	14B	Papua New Guinea Coconut Industry Fund
12	A	14C	Papua New Guinea Coconut Research Fund
13	A	15	Legal Training Institute
14	A	18	National Agriculture Quarantine and Inspection Authority
15	A	23	National Cultural Commission
16	A	28	National Maritime Safety Authority
17	A	31	National Research Institute
18	A	33	National Roads Authority
19	A	36	National Youth Commission
20	A	43	Papua New Guinea National Institute of Standards and Industrial Technology
21	A	44	Papua New Guinea Radio Communication and Telecommunications Technical Authority (PANGTEL)
22	A	47	Parliamentary Members' Retirement Benefits Fund
23	A	51	Small Business Development Corporation
24	B	61B	PNG Air Services Limited
25	B	63	NCD Water and Sewerage Limited (Eda Ranu)
26	B	69B	PNG Directories Limited

### 2008 AUDITS - COMPLETED DURING 2010/2011

No.	Section	Para. No.	Entity
1	A	5	Cocoa Board of Papua New Guinea and its Subsidiary
2	A	5A	Cocoa Stabilisation Fund
3	A	8	Government Printing Office
4	A	11A	Aquarius No. 21 Limited
5	A	11D	Port Moresby Private Hospital Limited
6	A	12	Industrial Centres Development Corporation
7	A	14	Kokonasi Industri Koproses and its Subsidiaries
8	A	14A	Papua New Guinea Coconut Extension Fund
9	A	14B	Papua New Guinea Coconut Industry Fund
10	A	14C	Papua New Guinea Coconut Research Fund
11	A	16	Mineral Resources Authority
12	A	22	National Capital District Commission
13	A	23	National Cultural Commission

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
14	A	25	National Fisheries Authority
15	A	29	National Museum and Art Gallery
16	A	33	National Roads Authority
17	A	40	Papua New Guinea Institute of Medical Research
18	A	46	Papua New Guinea University of Technology
19	A	48	PNG Waterboard
20	A	54	University of Natural Resources and Environment (Former University of Vudal)
21	B	58	Livestock Development Corporation Limited
22	B	66	Papua New Guinea Ports Corporation Limited
23	B	67	PNG Power Limited

#### **2007 AUDITS - COMPLETED DURING 2010/2011**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	4	Civil Aviation Safety Authority of Papua New Guinea
2	A	5	Cocoa Board of Papua New Guinea and its Subsidiary
3	A	5A	Cocoa Stabilisation Fund
4	A	6	Cocoa Coconut Institute Limited of Papua New Guinea
5	A	11A	Aquarius No. 21 Limited
6	A	11D	Port Moresby Private Hospital Limited
7	A	11E	Privatisation (Garden Hills) Limited
8	A	20	National AIDS Council
9	A	21	National Broadcasting Corporation
10	A	22	National Capital District Commission
11	A	26	National Gaming Control Board
12	A	29	National Museum and Art Gallery
13	A	39	Papua New Guinea Forest Authority
14	A	40	Papua New Guinea Institute of Medical Research
15	A	42	Papua New Guinea Maritime College
16	A	46	Papua New Guinea University of Technology
17	B	58	Livestock Development Corporation Limited
18	B	69A	Kalang Advertising Limited

#### **2006 AUDITS - COMPLETED DURING 2010/2011**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	5A	Cocoa Stabilisation Fund
2	A	20	National AIDS Council

#### **2005 AUDITS - COMPLETED DURING 2010/2011**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	20	National AIDS Council

**2004 AUDITS - COMPLETED DURING 2010/2011**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	20	National AIDS Council

**2002 AUDITS - COMPLETED DURING 2010/2011**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	30	National Narcotics Bureau

**2001 AUDITS - COMPLETED DURING 2010/2011**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	30	National Narcotics Bureau

**2000 AUDITS - COMPLETED DURING 2010/2011**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	30	National Narcotics Bureau

**1999 AUDITS - COMPLETED DURING 2010/2011**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	30	National Narcotics Bureau

**1998 AUDITS - COMPLETED DURING 2010/2011**

<b>No.</b>	<b>Section</b>	<b>Para. No.</b>	<b>Entity</b>
1	A	30	National Narcotics Bureau

**Schedule 'F'**

**STATUS OF AUDITS DURING THE YEAR 2010/2011**

<b>Year</b>	<b>Audits Completed</b>	<b>Audits Substantially Completed</b>	<b>Audits in Progress</b>	<b>Audits to Commence Shortly</b>	<b>Financial Statements not Submitted</b>	<b>Total 2010/2011</b>	<b>Total 2009/2010</b>
<b>2010</b>	11	11	8	3	49	<b>82</b>	<b>84</b>
<b>2009</b>	26	14	5	2	23	<b>70</b>	<b>74</b>
<b>2008</b>	23	8	4	2	11	<b>48</b>	<b>51</b>
<b>2007</b>	18	3	2	-	8	<b>31</b>	<b>29</b>
<b>2006</b>	2	1	2	-	6	<b>11</b>	<b>17</b>
<b>2005</b>	1	1	3	-	5	<b>10</b>	<b>13</b>
<b>2004</b>	1	1	3	-	4	<b>9</b>	<b>9</b>
<b>2003</b>	-	-	3	-	4	<b>7</b>	<b>6</b>
<b>2002</b>	1	-	1	-	1	<b>3</b>	<b>2</b>
<b>2001</b>	1	-	-	-	-	<b>1</b>	<b>1</b>
<b>2000</b>	1	-	-	-	-	<b>1</b>	<b>1</b>
<b>1999</b>	1	-	-	-	-	<b>1</b>	<b>1</b>
<b>1998</b>	1	-	-	-	-	<b>1</b>	<b>-</b>
<b>Total</b>	<b>87</b>	<b>39</b>	<b>31</b>	<b>7</b>	<b>111</b>	<b>275</b>	<b>288</b>

## Schedule 'G'

### 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	2010	1
2	A	3	Border Development Authority	2009	1
3	A	10	Independent Consumer and Competition Commission	2010	1
4	A	11B	General Business Trust	2010	1
5	A	13	Investment Promotion Authority	2009	1
6	A	14	Kokonasi Industri Koporesen	2008 & 2009	2
7	A	15	Legal Training Institute	2009	1
8	A	19	National Agricultural Research Institute	2010	1
9	A	31	National Research Institute	2009	1
10	A	38	Ombudsman Commission of Papua New Guinea	2010	1
11	A	43	Papua New Guinea National Institute of Standards and Industrial Technology	2009	1
12	A	47	Parliamentary Members' Retirement Benefits Fund	2009	1
13	A	48	PNG Waterboard	2008	1
14	A	52	Tourism Promotion Authority	2010	1
15	B	68	Post PNG Limited	2010	1
16	B	69B	PNG Directories Limited	2009	1
					<u>17</u>

#### (ii) QUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	5	Cocoa Board of Papua New Guinea	2007 & 2008	2
2	A	7	Coffee Industry Corporation Limited and its Subsidiary	2009	1
3	A	7A	Coffee Industry Fund	2009	1
4	A	7B	Patana No. 61 Limited	2009	1
5	A	11	Independent Public Business Corporation and its Subsidiary	2009	1
6	A	11D	Port Moresby Private Hospital Limited	2007 - 2010	4
7	A	12	Industrial Centres Development Corporation	2008	1
8	A	13	Investment Promotion Authority	2010	1
9	A	14A	Papua New Guinea Coconut Extension Fund	2008 & 2009	2
10	A	14C	Papua New Guinea Coconut Research Fund	2008 & 2009	2
11	A	16	Mineral Resources Authority	2008	1
12	A	18	National Agriculture Quarantine and Inspection Authority	2009	1
13	A	23	National Cultural Commission	2008 & 2009	2
14	A	25	National Fisheries Authority	2008	1
15	A	26	National Gaming Control Board	2007	1
16	A	28	National Maritime Safety Authority	2009	1
17	A	33	National Roads Authority	2008 & 2009	2
18	A	36	National Youth Commission	2009	1
19	A	42	Papua New Guinea Maritime College	2007	1
20	A	51	Small Business Development Corporation	2009	1

No.	Section	Para. No.	Entity	Year	No. of Audits
21	A	54	University of Natural Resources and Environment (Former University of Vudal)	2008	1
22	B	61B	PNG Air Services Limited	2009 & 2010	2
23	B	63	NCD Water and Sewerage Limited (Eda Ranu)	2009	1
					<u>32</u>

**(iii) DISCLAIMED OPINION**

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Civil Aviation Safety Authority of Papua New Guinea	2007	1
2	A	5A	Cocoa Stabilisation Fund	2006 - 2008	3
3	A	6	Cocoa Coconut Institute Limited of Papua New Guinea	2007	1
4	A	8	Government Printing Office	2008	1
5	A	11A	Aquarius No. 21 Limited	2007 - 2010	4
6	A	11E	Privatisation (Garden Hills) Limited	2007	1
7	A	14B	Papua New Guinea Coconut Industry Fund	2008 & 2009	2
8	A	20	National AIDS Council	2004 - 2007	4
9	A	21	National Broadcasting Corporation	2007	1
10	A	22	National Capital District Commission	2007 & 2008	2
11	A	29	National Museum and Art Gallery	2007 & 2008	2
12	A	30	National Narcotics Bureau	1998 - 2002	5
13	A	39	Papua New Guinea Forest Authority	2007	1
14	A	40	Papua New Guinea Institute of Medical Research	2007 & 2008	1
15	A	44	Papua New Guinea Radio Communication and Telecommunications Technical Authority (PANGTEL)	2009	2
16	B	58	Livestock Development Corporation Limited	2007 & 2008	2
17	B	66	Papua New Guinea Ports Corporation Limited	2008	1
18	B	67	PNG Power Limited	2008	1
19	B	69A	Kalang Advertising Limited	2007	1
					<u>36</u>

**(iv) ADVERSE OPINION**

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	46	Papua New Guinea University of Technology	2007 & 2008	2

**(v) INTERNAL CONTROLS REVIEW REPORTS**

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	34	National Training Council	2010	1