



REPORT OF THE AUDITOR-GENERAL

On the Accounts

of

Milne Bay Provincial Health Authority

For the year ended

31st December, 2016



Telephone: 301 2203 Fax: 325 8295 Website: www.ago.gov.pg Email: agopng@ago.gov.pg

OFFICE OF THE AUDITOR-GENERAL

30 June, 2020

The Honourable Job Pomat,
MP Speaker of the National
Parliament
Parliament House
WAIGANI
National Capital District

Dear Mr. Speaker

In accordance with the provisions of *Section 214* of the *Constitution of the Independent State of Papua New Guinea*, I have the honor to present to the National Parliament the audit report on the Milne Bay Provincial Health Authority for the year ended 31 December, 2016.

Yours sincerely,

GORDON KEGA, CPA, MBA
Acting Auditor-General

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ACRONYMS

AGO	Auditor General's Office
CEO	Chief Executive Officer
GO	General Orders, Public Service General Orders are issued under the Public Service Management Act, 1995
DoF	Department of Finance
DSIP	District Services Improvement Programme
HFG	Health Functional Grants
HSSIP	Health Sector Services Improvement Program
KRAs	Key Result Areas
MBPHA	Milne Bay Provincial Health Authority
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions (Issued by INTOSAI)
LLG	Local Level Government
LLGSIP	Local Level Government Service Improvement Program
MTDS	Medium Term Development Strategies
NDoH	National Department of Health
PFMA	Public Finance Management Act, 1995 (as amended)
PGAS	Provincial Government Accounting System
PHA	Provincial Health Authority
PHAA	Provincial Health Authority Act, 2007
PSIP	Provincial Services Improvement Programme

EXECUTIVE SUMMARY

Purpose

Pursuant to *Section 7* of the *Audit Act, 1989* (as amended) requires the Auditor-General to report to Parliament on the results of audits undertaken, this Report concludes the audit results arising from my review of MBPHA financial statement and internal control environment for the year ended 31 December, 2016. The audit findings and recommendations have been communicated to the Authority by way of a Management Letter for which MBPHA Management responded accordingly. My conclusion on the audit findings was a **Disclaimer Audit Opinion** issued to the Minister for Health and HIV & AIDS and Finance Minister on the 25 May, 2020.

Financial Performance Results

MBPHA's financial performance results for the year ended with an operating surplus fund balance of K242,596 as at 31 December, 2016, however, because of the significant errors noted on the data reported in the financial statement arising from inadequate maintenance of the books of accounts and incorrect opening account balances inherited from previous years financial operations, I am not able to determine the financial position of MBPHA as at 31 December, 2016. *Figure 1 below outlines a comparative summary of the 2016 and 2015 financial statements data.*

Figure 1: Financial Performance Results 2016 & 2015

	2016 'K'	2015 'K'	Variance 'K'
Total Revenue	37,225,958	(46,034,014)	(8,808,056)
Less: Total Expenditure	40,376,162	(81,513,426)	(41,137,264)
Operating Results (current year)	(3,150,203)	(35,479,412)	(32,329,209)
Add: Accumulated Fund Balance	3,392,799	3,392,799	0
Results as at 31 December, 2016	<u>242,596</u>	<u>(3,392,799)</u>	<u>(3,150,203)</u>
Cash Balances as at 31 December, 2016	<u>242,596</u>	<u>(3,392,799)</u>	<u>(3,150,203)</u>

Based on the financial statement data reported for the current year's operations as illustrated in **Figure 1** above, revealed the following financial results:

- MBPHA financial performance for the current year ended with an operating deficit fund balance of (K3,150,203), directly resulted from total annual expenditure of K40,376,162 exceeded total revenue of K37,225,958.
- The overall financial performance as at 31 December, 2016 was an operating surplus fund balance of K242,596, an improvement from the previous year's deficit balance of (K3,392,799) which reduced the accumulated deficit balance by (K3,150,203).
- The year-end accumulated fund balance of K3,392,799 reported for the 2015 fiscal year was incorrectly reported as the opening fund balance for the 2016 fiscal year and as such affects the accumulated fund balance of K242,596 reported as at 31 December, 2016.

In view of errors noted on the financial statement and related source documents, the appropriate adjustments were not carried out to correct the cash books and ledger account balances during the year and as such the financial statement is materially misstated by these errors.

Organization's Performance Results as Against Key Health Indicators

As at 31 December, 2016, MBPHA was in its sixth year of existence as a Provincial Health Authority since the signing of the Health Partnership Agreement on the 4th April, 2011. The development of the Corporate Plan 2016–2018 provides the way forward as it underpins the organization's effort to roll out the reform initiative of the National Government to strengthen the health system in order to improve health services delivery, health outcomes and ultimately the quality of life for the people of Milne Bay Province. Generally, the reform has improved the organization's performance as according to key health indicators over the last three years.

Making the Report publicly available

My Audit Report on MBPHA Accounts for the fiscal year ended 2016 is presented as an Individual Report and will be made available through the AGO website (www.ago.gov.pg) once it is table in Parliament.

1.0 MILNE BAY PROVINCIAL HEALTH AUTHORITY

1.1 Enabling Entity Legislation

Provincial Health Authority Act, 2007

Since the interception of the *Organic Law on Provincial and Local Level Governments* (OLPLLG), every district took ownership of health services delivery throughout the country. However as years went by health service delivery deteriorated with health indicators worsening while infrastructure maintenance upkeep failed resulting in theft and abuse due to fragmented health systems at the provincial level.

The Provincial Health Authority Act, 2007 (PHAA) was enacted by the National Parliament in 2007 to create a unified entity for purposes of managing and delivering integrated health services to the people at the provincial level. The *Provincial Health Authority Act, 2007* removes the impediments and barriers in the delivery of health services which caused separation of roles and responsibilities between public hospitals and provincial health services. This new law allows for the unification of the two systems and for the establishment of a single authority on health in every province.

Provincial Health Partnership Agreement

Pursuant to Section 7 (2) of the *Provincial Health Authorities Act, 2007*, the Provincial Health Partnership on Streamlining of Health Services was created. The legislation requires that in order for PHAs to be fully implemented, a Provincial Partnership Agreement between the Provincial Governor and Health Minister is signed with necessary operational guidelines to be developed as guiding principles for implementing the Agreement. Some of these necessary arrangements are in the areas of administration, financing, budgeting, assets transfers, staff appointment, personnel management, implementation and monitoring.

Establishment of MBPHA

Milne Bay Provincial Hospital was one of the first provincial hospitals in the country to be established as a Provincial Health Authority in 2011 under the *Provincial Health Authorities Act, 2007* and in partnership with the Milne Bay Provincial Government, the authority was mandated under the *Health Administration Act, 1997* and the Organic Law to oversee the implementation of the National Health policies and programs in the province.

1.2 Policies and Budget

Policies

Policies are formulated from the Corporate Plan. Generic compliances are placed on the *Provincial Health Authority Act, 2007*, *Health Administration Act, 1997*, *Public Finance Management Act* and General Orders.

PHAs Budget

PHA's budget are funded by Provincial Government's appropriation of such monies as are appropriated by the Provincial Government for the delivery of public health services and for the fulfillment of services and policy functions as adopted and such other delegated functions by the province to the Provincial Health Authorities and National Government funding through Department of Health of such monies as development partners' contributions, donor funding and private sector contributions through Health Sector Services Improvement Program (HSSIP) Trust Accounts, for the fulfillment of services and policy functions on the PHAs.

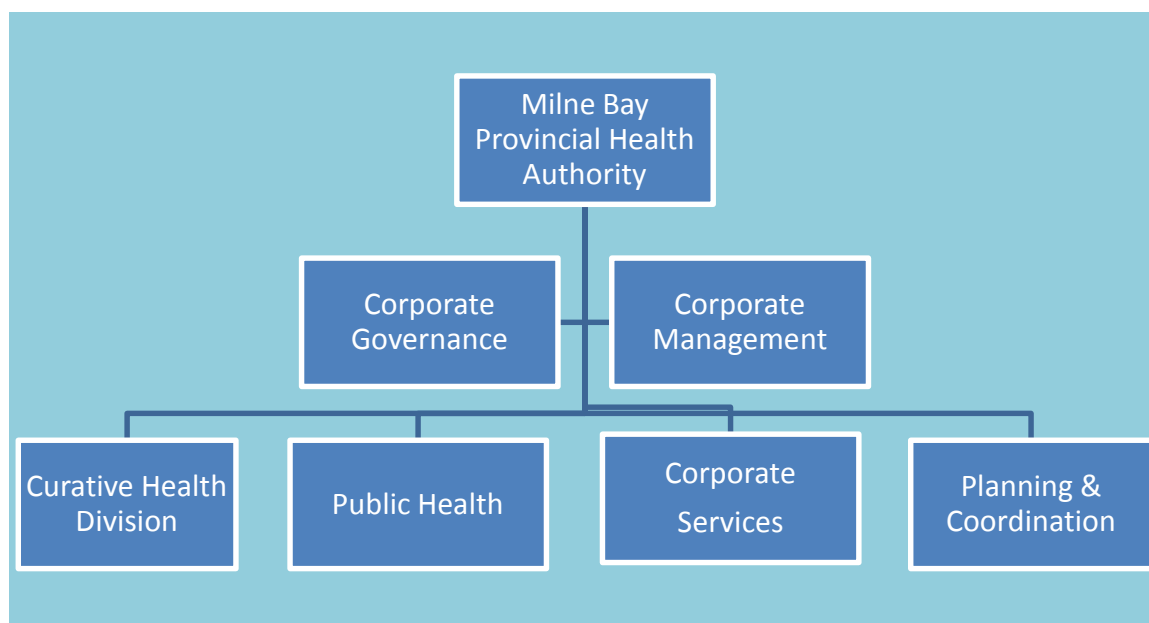
1.3 Corporate Plan

The Milne Bay Provincial Health Authority (MBPHA) Corporate Plan (2016-2018) is the second corporate plan of the organization since the establishment of the PHA reforms in Milne Bay Province. The Corporate Plan is a working document that has been developed by management to provide strategic directions for the organization to improve overall performance in the delivery of better quality health services and ultimately health status of the people of Milne Bay Province.

1.4 Organization Operational Structure

The Organization Structure is made up of the Corporate Management Structure and Corporate Governance Structure. Corporate Management Structure comprises of Curative Health Division Services, Public Health, Corporate Services and Planning & Coordination. To effectively guide and direct administrative functions of the Corporate Management Structure, MBPHA has put in place, a Board Governance Committee, Sub-Committees; and Senior Executive Management.

Figure 2: Organization Structure



2.0 AUDITOR-GENERAL

2.1 Role of the Auditor-General

Section 214 of the Constitution of the Independent State of Papua New Guinea (the National Constitution) prescribes that the primary functions of the Auditor-General are to inspect, audit and report to the National Parliament on the Public Accounts of Papua New Guinea (PNG) and on the control of and on transactions with or concerning the public monies and properties of Papua New Guinea.

The functions have been amplified by the *Audit Act, 1989 (as amended)*. Section 39 of the *Provincial Health Authorities Act, 2007* extends the audit provisions that the accounts of the Board of a Provincial Health Authority shall be audited in accordance with Part 3 of the *Audit Act, 1989 (as amended)*.

2.2 Audit Scope

The audit of the accounts and records of MBPHA was directed primarily at the evaluation of internal controls, together with such other examinations considered necessary. The audit procedures applied were intended to reveal system weaknesses, which would result in losses or errors, fraud and mismanagement of public funds.

Moreover, the audit was directed to examine the reliability and integrity of the Financial Statement presented and other information produced and determining the extent of compliance with applicable laws, regulations and directives. In addition, internal controls pertaining to receipts and receivables, payments, purchases and payables, stores and supplies, cash and banking, budget, payroll, advances and assets owned and in the custody of the MBPHA were appraised accordingly.

2.3 Nature of Audit

The nature of audit is influenced by factors such as the use of professional judgment including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. The audit is not required to search specifically for fraud and therefore the audit cannot be relied upon to disclose all such matters. However, all audits are planned and executed so that I can have a reasonable expectation of detecting material misstatements resulting from irregularities including fraud.

Compliance with relevant legislation is of paramount importance in safeguarding the State's assets. My audits included reviews and tests to ascertain whether key provisions of the *Public Finance Management Act, 1995 (as amended 2016)* and various Finance Instructions have been adhered to.

2.4 Period of Reporting

The audit inspection of MBPHA Financial Statement, accounts and records relates to the fiscal year ended 31 December, 2016 carried out in the month of April 2019. The Management Letter Report was issued to the Provincial Health Authority on 25

May, 2020. The audit was in arrears hence, was completed and now reported in the 2019/2020 Audit Cycle.

3.0 RESULTS OF AUDIT

3.1 Disclaimer of Audit Opinion

Because of the significance of matters described in my Audit Opinion Report, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am not able to express an opinion on the financial statement of MBPHA for the year ended 31 December, 2016.

The Audit Opinion Report was issued to the Minister for Health and HIV & AIDS and Finance Minister on 25 May, 2020 in accordance with the provisions of *Audit Act, 1989 (as amended)*. ***Refer Attachment A for copy of Audit Opinion Report.***

3.2 Financial Statement

Provincial Health Authorities are required to prepare their financial statement in accordance with the *Finance Instructions 2/2004* (Financial Statement Format for Non-Trading Public Bodies). The MBPHA Financial Statement for the fiscal year ended 31 December, 2016 was prepared on a Cash Basis of Accounting in accordance with the *International Public Sector Accounting Standards (IPSASs)*. ***Refer Attachment B for the Audited Financial Statement.***

3.3 Significant Internal Control Issues

My review of the internal controls concluded that there were significant weaknesses in the control environment. Specific areas of major concerns are related to, budgetary controls, maintenance of cashbooks & monthly bank reconciliations, procurement compliance, paid accounts, salaries and wages management, assets management and internal audit. The paragraphs below provide detail discussions on such controls:

3.3.1 Budgetary Control

Financial capacity remains a major factor affecting PHAs ability to fully implement budgeted programs and activities, I also noted other issues which affects PHAs budget management as discussed in the paragraphs below;

- a) PHAs including MBPHA have no direct control over their own budget because a certain portion of the budgeted appropriations are not remitted directly to PHAs operating accounts, however channel through other agencies such as the Health Functional Grants remitted through Provincial Governments Operating Accounts and Salaries and Allowances (item 111) appropriation is retained and paid by the Department of Finance through the Alesco Payroll System.

I also noted potential revenue sources such as, PSIP, DSIP, LLGSIP Funds, Donor Funds and Christian Health Services Grant are not captured in the PHA's

budget which concludes that health services management and delivery at the provinces are still not fully amalgamated into one single system of management and reporting;

- b) The release of budget appropriations to PHA either through Warrants (NDoF) or CFCs (NDoH) is often untimely and unpredictable which results in disruptions to health service delivery, hinders PHAs capacity to implement plan activities and contributes substantially to inefficiencies; and
- c) *Free Health Care Policy* came into effect on 24 February. There are concerns about implementation of the policy in terms of its effectiveness, implementation schedule, and lack of indicators to determine both the extent of financial protection through the policy and the coverage of health care services. Despite the name of the new policy, primary health care services have officially been free in Papua New Guinea since 1975. Nevertheless, due to a lack of reliable financing, health facilities do, in practice, charge user fees as these are often the only source of operational revenue.

3.3.2 Cash Books & Bank Reconciliation

Provincial hospital's integration to PHA status commonly experienced the problem of maintaining proper cash books and compiling accurate monthly bank reconciliations. I noted the following issues with MBPHA books of accounts maintained for the year ended 31 December, 2016:

- a) When the new PHA bank accounts commenced operations, there was no financial instruction issued by either NDoF or NDoH to give specific directions on the processes and procedures required to close-off the old Alotau Provincial hospital cash book and transfer operations to the new MBPHA cash book.

Such oversight directly resulted to confusions leading to inconsistencies and incompleteness in recording daily transactions that occurred during the year and compiling monthly bank reconciliations with consequent effects on the accuracy of the cashbook balances, ledger account balances and bank reconciliation balances reported in the financial statement; and

- b) Also for those PHAs that adopted the Provincial Government Accounting System (PGAS), the necessary requirements for the system setup and proper training of PHA Staffs were not conducted prior to initially operating the system. Further, the absence of Technical Staffs equipped with PGAS accounting knowledge and experience was a major oversight which led to confusion, doubts and uncertainties in operating the PGAS System.

I noted that MBPHA cash books were not properly maintained and therefore incomplete in providing accurate information on financial transactions that occurred during the year. Furthermore, the application of the appropriate accounting processes to update the cash books and ledger accounts was not applied and therefore resulted to material misstatement of the consolidated reconciled cash book balance of K242,596 reported as at 31 December, 2016.

3.3.3 Procurement Compliance with PFMA

I note that MBPHA have in place a procurement process, however compliance with PFMA was not strictly adhered to simply because the organization at present does not have a Procurement Policy Manual, developed to arrange its procurement process in line with provisions of the PFMA requirements such as, establishment of positions within PHA's staff organization structure to allow for the appointment of expenditure procurement officers and also obtain legislative provision to delegate the CEO's Financial Authority approval powers.

3.3.4 Expenditure Accounts

My analysis of the total expenditure of K37,388,089 incurred for the year under review, revealed the following discrepancies:

- a) The Salaries and Allowances expenditure of K22,780,400 reported in the financial statement relates to the budget estimated appropriation and does not reflect actual expenditure for the year. The Alesco payroll report for the year was not provided for my review and therefore I was not able to confirm the accuracy of the reported total of K22,780,400 shown in the Financial Statement;
- b) A total expenditure of K1,433,270 being accommodation rental payments for medical staffs mostly, Doctors, HEOs and Specialist was incurred during the year. I was not provided with sufficient supporting documents such as housing policy guideline, and correspondences relating to any such housing privileges, incentives and benefits given by an appropriate authority and therefore I was not able to confirm the appropriateness of payments made in this regard; and
- c) A large number of expenditure transactions numbering to two hundred forty (240) and totaling K226,106 were paid in cash which implies that the authority handled a lot of cash transactions during the year. However records pertaining to advances paid were not properly maintained and as such I was unable to confirm whether payments made in this regard were properly acquitted.

3.3.5 Salaries and Wages Management

I observed the following major management issues over the processing of salaries and wages for the year under review:

- a) Fortnightly Payroll checks on the Salaries and Allowances processed through the Alesco Payroll System were not done. Consequently, the management was not able to take stock of the variations in the payroll for each period and therefore exposing potential risk to irregularities occurring within the PHA payroll without detection; and
- b) MBPHA had no payroll system for processing casual wages instead the normal expenditure process of issuing cheques was used. Also the Salary and Wages Taxes (SWT) were not paid on the wages earned by casual employees as well as the overtime earned by the PHA staff during the year.

3.3.6 Assets Management

MBPHA since becoming a Health Authority in the year 2011 has not established a consolidated assets register to incorporate assets categories transferred from Alotau Provincial Hospital with those from Milne Bay Provincial Government, districts health centers and local level government health centers.

3.3.7 Internal Audit

Internal Audits were not conducted by the Milne Bay Provincial Government or the National Department of Health (NDoH) to ensure probity and integrity of the Authority's systems and processes to safe guard against loss, misuse and abuse during the year ended 31 December, 2016.

4.0 ENTITY COMMENTS AND RESPONSES

After the completion of my field audits, I normally issue Management Letters to the Provincial Health Authorities for management to respond accordingly to issues that I have found to be inconsistent, unlawful, non-compliant and incorrectly disclosed in the Financial Statement.

To be reasonable and impartial this avenue facilitates management responses so that Parliament is acquainted accordingly in relation to the lapses that may have been committed in the respective financial years. MBPHA had responded accordingly to the issues raised and were taken into consideration in compiling this report. *Refer Attachment C.*

5.0 FOLLOW UPS

For the financial year ended 31 December, 2017 inspection, I have planned to follow up on the recommendations and their responses to my Management Letter and report the status accordingly in my next Audit Report to Parliament.

6.0 STAKEHOLDER EXPECTATIONS

I am consoled to report that the MBPHA through the board and its management had captured and addressed the stakeholder expectations in terms of health service deliverables as one of its Key Result Areas (KRAs) in its Corporate Plan. The MBPHA major stakeholders include the Provincial Government, the Districts & LLGs in the province, the Civil Societies, Church Health Agencies, Development Partners, National Agencies, Private Sector and the people of Milne Bay at large.

Without the strong stakeholder support, service delivery as envisaged by the National Government remains to be frustrated and MBPHA has embarked on strengthening its stakeholder relationship with effective oversight mechanisms including my Office's participating in ensuring good governance and accountability to achieve desired

goals and objectives in providing the best health deliverables to the people of Milne Bay Province.

7.0 RECOMMENDATIONS

- **Organized Finance & Accounts Branch** - MBPHA need a properly organized Finance & Accounts Branch to allow for systematic flow of accounting processes in maintaining the books of accounts. Also MBPHA needs an accountant with adequate support staffs and proper setup of an-accounting software to incorporate all financial data and information in one central data base.
- **Budgetary Control** – MBPHA budget at present faces many challenges in regard to implementation, monitoring and reporting because health sector funds to the province are not fully controlled and managed by the authority. It is therefore recommended that all budgeted appropriations for health services in provinces should be managed by one central agency.

Also the authority should install a convenient accounting system of recording budget data and information for ease of reference in compiling annual budgets, budget reviews and revisions and accurate record keeping of budget documents.

- **Cash Books and Bank Reconciliation** – The cash books and bank reconciliation balances reported as at 31 December, 2016 are materially misstated by the accumulated errors inherited from prior years, back dated to as far as 2012. It is recommended that the cash books maintained for the years starting from 2012 to 2016 should be properly analyzed to identify errors, omission and misstatements so the appropriate adjustments can be effected to correct the cash books and bank reconciliation balances.
- **Procurement Compliance with PFMA** - The MBPHA at present does not have a Procurement Policy Manual developed to arrange the current procurement process in line with provisions of the PFMA requirements such as establishment of positions within PHA's staff structure to allow for the appointment of expenditure procurement officers and also obtain legislative provision to delegate the CEO's Financial Authority approval powers. The management should design a Procurement Policy Guideline to guide its procurement processes in line with the *Public Finance Management Act, 1995*.
- **Assets Management** – Effective assets management controls within government service oriented agencies do not exist because of ignorance to recognize that these assets provide an essential pathway for delivering services. MBPHA should appoint an officer specifically assign to take charge of all assets and ensure that all asset items transferred by the Milne Bay Provincial Government (MBPG) and National Department of Health to MBPHA including properties and facilities at the districts and local level governments are properly managed.

- **Salaries and Wages Management** – Salaries and Wages expenditure consumes a large portion of PHAs annual expenditure appropriation, it is very important that proper internal control mechanisms exist to ensure proper management of the salaries and wages expenditure.
- **Staff Organization Structure** – MBPHA urgently needs a new staff organization structure to merge employees transferred from the provincial government with those from the previous public hospital administration. Also with the extended functions of PHAs establishment, the staff structure needs to be re-arranged and adjusted to create positions in line with the MBPHA's human resource needs and requirements.

8.0 WAY FORWARD

The establishment of PHAs in the provinces come with numerous challenges and therefore it is of paramount importance that frontline agencies and parties involve with the PHA establishment must demonstrate commitment to work in partnership to pursue reforms in the health sector is address to improve service delivery against the backdrop of increasing demand due to increasing population, rising diseases, decreasing resources for health and pressures associated with health workforce shortage.

My audits contribute an important part in assisting PHAs operations by encouraging good governance, transparency and accountability in executing their mandated roles and responsibilities. The MBPHA is therefore encouraged to seriously comply with the audit recommendations and where necessary establish the required internal control measures for improvement.

9.0 ATTACHMENTS

For ease of reference in accessing supporting documents and records mentioned or referred to in this report, the following attachments provided below forms part of this Report.

Attachment A – 2016 Audit Opinion Report

Attachment B – Financial Statement

Attachment C – Management Letter Response

Attachment A – Audit Opinion



Telephone: 301 2203 Fax: 325 8295 Website: www.ago.gov.pg Email: agopng@ago.gov.pg

OFFICE OF THE AUDITOR-GENERAL

**INDEPENDENT AUDIT REPORT ON THE ACCOUNTS OF MILNE BAY
PROVINCIAL HEALTH AUTHORITY FOR THE YEAR ENDED 31 DECEMBER, 2016**

To the Minister for Health

In compliance with the requirement of the *Audit Act 1989 (as amended)* I have audited the accompanying financial statement of the Milne Bay Provincial Health Authority (MBPHA) for the year ended 31 December, 2016. The financial statement comprise of:

- Management Declaration
- Consolidated Statement of Receipts and Payments
- Statement of Receipts and Payments of Operational Funds
- Statement of Receipts and Payments of Trust Fund
- Notes to and forming part of the Financial Statement

Responsibility for the Financial Statement

The Chief Executive Officer is responsible for the fair presentation of the financial statement and the information contained therein in accordance with the *Finance Instructions* issued under *Section 117 of the Public Finances (Management) Act 1995*.

The Chief Executive Officer is responsible for the efficient management of administrative services, for keeping proper accounting records, for safeguarding the assets of the Provincial Health Authority and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility of the Auditor-General

It is my responsibility to form an Independent opinion, based on my audit, on the financial statement prepared on a Cash Basis and to report in accordance with the *Audit Act 1989 (as amended)*.

The audit was planned and performed in accordance with *International Standards of Supreme Audit Institutions (ISSAI)* as promulgated by the *International Organization of Supreme Audit Institutions (INTOSAI)* to obtain reasonable assurance whether the financial statements are free of material misstatement. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement.

Level 6
TISA Investment Haus
Kumul Avenue, NCD

Auditing **IMPACT**

P.O Box 423
WAIGANI, NCD
Papua New Guinea

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The nature of an audit is influenced by factors such as the use of professional judgment, including the assessment of the risks of material misstatements of the financial statement, whether due to fraud or error. I have considered the risks, based on those assessments on the internal controls relevant to the preparation and presentation of the financial statement in designing audit procedures considered appropriate in the circumstances. Because of the matters described in the *Basis for Disclaimer of Opinion* paragraph, I am unable to obtain sufficient appropriate audit evidence to provide basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Financial Statement

Fund Balances

Because of a Disclaimer Audit Opinion issued in respect of the year ended 31 December, 2015 and the unexplained variance K26,618,808 noted on the opening fund balance of K3,392,799 from the previous year's closing balance of K30,011,607. However, I was not provided any documentation or necessary explanation and therefore I was not able to obtain sufficient evidence to satisfy myself as to the accuracy of these opening and closing fund balances for the year.

Since the opening balances would affect the determination of the financial position and cash flow of MBPHA in the current year, I am unable to determine whether adjustments to the related cashbooks, ledger accounts and bank reconciliations might have been necessary for the year ended 31 December, 2016.

Cash Balances

Reconciled Cash Balances of (K645,629) and K888,225 were reported for the operating account and trust account respectively. I noted that the cashbooks were not adequately maintained and bank reconciliations were inconsistent, untimely and inaccurate. Consequently, I am unable to verify and confirm the correctness of the cash books, ledger accounts and bank reconciliation balances reported at year-end and determine the impact these limitations may have on the account balances and subsequent financial position of MBPHA as at 31 December, 2016.

Revenue & Expenditure Component of Salaries

The revenue and expenditure component of Salaries appropriation of K29,820,300 as reported in the financial statement represent the budgeted estimates and not actuals. However, I was not provided the Alesco Payroll report for the year under review and since these disclosures were not accurately presented, I am unable to determine the impact the variance between the actual and appropriation may have on the revenue and expenditure totals as at 31 December, 2016

Fixed Assets

MBPHA since becoming an Authority in the year 2012 has not established a consolidated assets register to incorporate assets categories transferred from Alotau Provincial Hospital with those from Milne Bay Provincial Government, District Health Centers and Local Level Government Health Centers. Recurring issues associate with assets management include, non-existence of an assets policy guideline, inconsistency in recording assets purchases, non-disclosure of purchase values and failure to conduct periodic stocktake. Consequently, I am unable to confirm the accuracy of the total assets value of K3,463,526 reported in *Schedule 4* of the financial statement.

Liabilities

An amount of (K104,437) is reported as State of Papua New Guinea under *Schedule 5* of the Financial Statements. No further explanation was provided on this liability and as such I am unable to verify and confirm the accuracy of this disclosure.

Advances

The Advance Registers maintained, reported Salary, Cash and Travel Advances totaling K42,810, K43,244 and K186,942 respectively which remained outstanding as at year end. The Schedule of Advances was not disclosed and therefore I am unable to confirm the total value of outstanding advances as at 31 December, 2016.

2.0 Significant Control Weaknesses

My review of the books of accounts and records revealed that there were significant control weaknesses and I include herewith

Budgetary Control

- Documents and records pertaining to the 2016 budgeted appropriation of K29,820,300 including the Appropriation Act, budget reviews and revision were not provided and therefore limited my audit scope in performing the necessary audit assessments to determining budgetary performance results against actuals.
- The revenue and expenditure component of Salaries total of K29,820,300 as reported in the financial statement represent the budgeted appropriation amounts and not actuals. Also no reconciliations were done on the payroll expenditure incurred and therefore I was unable to compare actual salaries against budgeted appropriation to determine if there were any payroll overruns.
- The release of budgeted appropriations to MBPHA either through Warrants (NDoF) or CFCs (NDoH) is often untimely and unpredictable resulting in, disruptions to health service delivery, hinders CEO's capacity to implement plan activities, contributes substantially to inefficiencies and prevent elimination of user fees.

Revenue Management

The cash books and revenue ledgers were not properly maintained, I also noted delays in preparing the monthly bank reconciliations, and therefore I am unable to confirm whether all revenue receipts for the year were properly accounted for and correctly reported in the financial statement.

DISCLAIMER OF AUDIT OPINION

Because of the significance of the matters described above, I am not able to obtain sufficient appropriate audit evidence and consequently I do not express an opinion on the Financial Statement of Milne Bay Provincial Health Authority for the year ended 31 December, 2016.

OTHER MATTERS

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statement, to which the report relates. The paragraph below is a matter of significance.

Section 62(1) of the Public Finances (Management) Act, 1995 requires all public bodies to keep proper accounts and records of its transactions and affairs, and to develop adequate controls over the assets and liabilities. Milne Bay Provincial Health Authority did not maintain proper books of accounts and records and consequently breached *Section 62(1) of the Public Finances (Management) Act, 1995*.



GORDON KEGA, MBA, CPA
Acting Auditor-General

25 May 2020



Lock Bag 402, ALOTAU, Milne Bay Province. Tel: (675) 6410665/6411250 Fax: (675) 6410670/6410040

For Year Ended 31st December 2016

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DECLARATION BY THE MANAGEMENT

We, the undersigned, do solemnly and sincerely declare that, to the best of our knowledge and belief that the 2016 Financial Statements is true and fair with accompanying:

1. Statement of Cash Receipts and Payments as at 31 December 2016 under the Revenue Fund known as **Milne Bay Provincial Health Authority Operating Account**. The purpose of this account is to hold monies as Grants from the National Government Appropriation and other revenues. ✓
2. And Statement of Cash Receipts and Payments as at 31 December 2016 under Trust Fund known as **Milne Bay Provincial Health Authority General Trust Account** is to hold monies received as monies appropriated for the trust account, fees and charges imposed for the provision of services to the public and other monies allowed by the trust instrument. ✓
3. And **Consolidated Statement of Cash Receipts and Payments** as at 31 December 2016 incorporating all the above accounts under the Receipts and Payments controlled by the Milne Bay Provincial Health Authority.
4. And the **Schedules of Assets, Liabilities and Contingent Liabilities and Administered Transactions** as at 31 December 2016 to record Accounts details of the Milne Bay Provincial Health Authority. ✓

And we make this solemn declaration by virtue of Oaths, Affirmations and Statutory Declarations Act and subject to the penalties provided by the Act for making false statements in statutory declarations, conscientiously believing the statements contained in this Declaration to be true and fair in every particular. ✓

Declared at this

Day of, 2016

) 
) Steven Enore
) Director Corporate Services - MBPHA

Declared at MBPHA Monro this 14

Day of MAY, 2016

)
) Billy Naidi
) Chief Executive Officer - MBPHA

Before me:

.....

MILNE BAY PROVINCIAL HEALTH AUTHORITY

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

CONSOLIDATED

	Notes	2016 Receipts or Payments Controlled by Entity (Kina)	2015 Receipts or Payments Controlled by Entity (Kina)	Comparison
RECEIPTS				
Grants Revenue	3a	7,635,350	9,609,980	(1,974,630)
Other Grants & Donor Assistance	3a	-	-	-
Other Receipts (Including internally generated)	3a	6,810,208	5,645,134	1,165,074
Item 111 (Managed by Dept of Finance)	3a	22,780,400	30,778,900	(7,998,500)
Total Receipts		K 37,225,958	K 46,034,014	K (8,808,056)
PAYMENTS				
Item 111 (Managed by Dept of Finance)		22,780,400	30,788,900	(8,008,500)
Salaries, Wages and Employee Benefits	3b	917,851	31,720,358	(30,802,507)
Supplies and Consumables	3b	1,390,248	1,796,389	(406,141)
Utilities	3b	1,388,192	1,739,003	(350,811)
Administrative Expenses	3b	3,369,199	4,511,334	(1,142,135)
Other Administrative Expenses	3b	4,901,439	2,652,430	2,249,009
Grant & Transfers to Public Authority	3b	2,158,000	3,697,000	(1,539,000)
Development Expenditure	3b	1,894,057	2,284,077	(390,020)
Others - Medivac	3d	301,190	108,411	192,779
Other - Project Grants		-	2,215,524	(2,215,524)
Others [Unknown Exp items]	3d	1,275,587	-	1,275,587
Total Payments		K 40,376,162	K 81,513,426	K (40,390,106)
INCREASE/(DECREASE) IN CASH		K (3,150,203)	K (35,479,412)	K 31,582,050
Cash at the beginning of the year		K 3,392,799	K 3,392,799	K -
Increase/(Decrease) in cash		K (3,150,203)		K (3,150,203)
Cash at the end of the year		K 242,596	K 3,392,799	K (3,150,203)

Represented by

Milne Bay Health Authority Operating account

K (645,629) K 2,420,113

Milne Bay Health Authority Trust account

K 888,225 K 972,686

FUND BALANCE

K 242,596 K 3,392,799



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MILNE BAY PROVINCIAL HEALTH AUTHORITY

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

OPERATING ACCOUNT

	Notes	<u>2016</u> Receipts or Payments Controlled by Entity (Kina)	<u>2015</u> Receipts or Payments Controlled by Entity (Kina)	Comparison
RECEIPTS				
Grant Revenue	3a	7,635,350	9,609,980	(1,974,630)
Other Grants & Donor Assistance		-	-	
Internal Revenue & Others	3a	3,906,596	3,929,600	(23,004)
Item 111 (<i>Managed by Dept of Finance</i>)		22,780,400	30,778,900	(7,998,500)
Total Receipts		K 34,322,346	K 44,318,480	K (9,996,134)
PAYMENTS				
Item 111 (<i>Managed by Dept of Finance</i>)		22,780,400	30,778,900	
Salaries, Wages and Employee Benefits	3b	917,851	31,720,358	(30,802,507)
Supplies and Consumables	3b	1,147,740	1,138,562	9,178
Utilities	3b	1,206,165	1,482,304	(276,139)
Administrative Expenses	3b	3,362,453	4,473,685	(1,111,232)
Other Administrative Expenses	3b	3,921,423	2,326,343	1,595,080
Grant & Transfers to Public Authority	3b	2,158,000	3,697,000	(1,539,000)
Development Expenditure	3b	1,894,057	1,145,826	748,231
Others - Medivac		-	-	-
Other - Project Grants		-	2,215,524	(2,215,524)
Total Payments		K 37,388,089	K 78,978,502	K (33,591,913)
INCREASE/(DECREASE) IN CASH		K (3,065,742)	K (34,660,022)	K 23,595,780
Cash at the beginning of the year		K 2,420,113	K 2,420,113	K -
Increase/(Decrease) in cash		K (3,065,742)		K (3,065,742)
Cash at the end of the year		K (645,629)	K 2,420,113	K (3,065,742)

PGAS Cash Book Account: 1-1 K 1,957,055

PGAS Cash Book Account: 32-238 K (2,602,683)

K (645,629)



MILNE BAY PROVINCIAL HEALTH AUTHORITY

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

TRUST ACCOUNT

	Notes	2016 Receipts or Payments Controlled by Entity (Kina)	2015 Receipts or Payments Controlled by Entity (Kina)	Comparison
RECEIPTS				
Grant Revenue		-	-	-
Grants and Other Assistances		-	-	-
Other Receipts	3c	2,767,457	287,584	2,479,873
Internal Trust Receipts	3c	136,155	1,427,950	(1,291,795)
Total Receipts		K 2,903,612	K 1,715,534	K 1,188,078
PAYMENTS				
Salaries, Wages and Employee Benefits		-	-	-
Supplies and Consumables	3d	242,508	657,827	(415,319)
Utilities	3d	182,027	256,699	(74,672)
Administrative Expenses	3d	6,746	37,649	(30,903)
Other Administrative Expenses	3d	980,016	326,087	653,929
Grant & Transfers to Public Authority		-	-	-
Development Expenditure		-	1,138,251	(1,138,251)
Others - Medivac	3d	301,190	108,411	192,779
Other - Project Grants		-	-	-
Others [Unknown Exp items]	3d	1,275,587	-	-
Total Payments		K 2,988,073	K 2,524,924	K (812,438)
INCREASE/(DECREASE) IN CASH		K (84,461)	K (809,390)	K 724,929
Cash at the beginning of the year		K 972,686	K 972,686	K -
Increase/(Decrease) in cash		K (84,461)		K (84,461)
Cash at the end of the year		K 888,225	K 972,686	K (84,461)

Manual Cash Book Account:

K 888,225



MILNE BAY PROVINCIAL HEALTH AUTHORITY**Notes to the Financial Statements****1. Accounting Policies****Basis of Preparation**

The financial statements of the Milne Bay Provincial Health Authority are prepared based on the converted data from PGAS and Accounts maintained on MS Excel Spread sheet. As far as been possible the accuracy of the converted data has been verified with the source documents and adjustment taken up accordingly. The financial statements have been prepared in accordance with Cash Basis International Public Sector Accounting Standards (IPSAS). Financial Reporting in under the Cash Baisi of Accounting.

The accounting policies have been applied consistently throughout the period relating to the Public Finances (Management) Act, 1995.

Reporting Entity

The financial statements are for Milne Bay Provincial Health Authority as a Non – Trading Public Body. The financial statement encompasses the reporting entity as specified in the Public Finances (Management) Act, 1995. Milne Bay Provincial Health Authority is controlled by the National Government of Papua New Guinea through appropriations from Government.

Milne Bay Provincial Health Authority's principal activity is to provide hospital based health care services and public health services to its constituents.

Payments by other government entities

Milne Bay Provincial Health Authority benefits from payments made by the Government and other government entities on its behalf.

Payments by external parties

Milne Bay Provincial Health Authority also benefits from payments made by external parties for goods and services. These payments do not constitute cash receipts or payment to Milne Bay Provincial Health Authority, but do benefit the authority through organizations such as interest groups, faith based organisation, non governmental and donor agencies. Details are disclosed as Other Projects in the Payments by external parties in the Statement of Receipts and Payments and in other financial statements.

Reporting Currency

The reporting currency is in PNG Kina.

2. Cash

Cash comprises cash on hand and cash equivalents. Cash equivalent comprises balances with banks and investments in short term money market instruments. Amounts appropriated to Milne Bay Provincial Health Authority are deposited in the bank accounts and are controlled by Milne Bay Provincial Health Authority. All borrowings are undertaken by a central finance entity; hence no borrowings were undertaken by Milne Bay Provincial Health Authority.



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A handwritten signature in blue ink, enclosed within a hand-drawn circle.

Cash is included in the Statements of Cash Receipts and Payments and comprises the following:

Cash On Hand:

Balances with Bank:

	<u>2016</u>	<u>2015</u>
Milne Bay Provincial Health Authority Operating Account	(645,629)	2,420,113
Milne Bay Provincial Health Authority General Trust Account	888,225	972,686
	K 242,596	K 3,392,799

Short-term Investments:

Investment# 1	-	-
Investment# 2	-	-
Investment# 3	-	-
	K -	K -
	K 242,596	K 3,392,799

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3a. Appropriation Revenue - Operating Account

	Appropriation 2016 (K)	Revised 2016 (K)	Revenue 2016 (K)	Revenue 2015 (K)	Variance (K)
Grants and Internal Revenue					
Grants					
Grant Revenue - NDoH	-	-	5,676,250	5,680,380	(5,676,250)
Grant Revenue - MBP Gov't	-	-	1,959,100	3,929,600	(1,959,100)
	K -	K -	K 7,635,350	K 9,609,980	K (7,635,350)
Other Grants & Donor Assistance	-	-	-	-	(15,270,700)
	K -	K -	K 7,635,350	K 9,609,980	K (22,906,050)
Internal Revenue & Others					
Internal Revenue (Operating Account)	-	-	-	-	-
Rollover Funds	3,141,100	3,141,100	2,879,100	-	262,000
Other Receipts	-	-	1,027,496	1,221,878	(1,027,496)
Projects	-	-	-	-	-
	K 3,141,100	K 3,141,100	K 3,906,596	K 1,221,878	K (765,496)
Personnel Emolument (Managed by Dept of Finance)					
Item 111	22,780,400	-	22,780,400	30,778,900	-
	K 22,780,400	K -	K 22,780,400	K 30,778,900	K -
Total Operating Account	K 25,921,500	K 3,141,100	K 34,322,346	K 41,610,758	K (23,671,546)



3c. Appropriation Revenue - Trust Account

Revenue:	Appropriation 2016 (K)	Revised 2016 (K)	Actuals Receipts 2016 (K)	Actuals Receipts 2015 (K)	Variances (K)
Grant Revenue					
National Government	-	-	-	-	-
Provincial Government	-	-	-	-	-
Total	K -	K -	K -	K -	K -
Grants and Other Assistances					
Free Primary Health Care Subsidy	-	-	-	-	-
Medivac Grants (Provincial)	-	-	-	287,584	-
Donors	-	-	-	-	-
Total	K -	K -	K -	K 287,584	K -
Other Receipts					
Internal Transfers Operating Account	-	-	2,492,286	-	(2,492,286)
Nursing Association Project Grant	-	-	-	1,427,950	-
Development Funds (NDoH)	-	-	-	-	-
Other Receipts	-	-	275,170	-	-
Total	K -	K -	K 2,767,457	K 1,427,950	K (2,767,457)
Total Other Receipts	K -	K -	K 2,767,457	K 1,715,534	K (2,767,457)
Internal Revenue Trust Account					
Other income	-	-	136,155	-	(136,155)
Outpatients	-	-	-	20	-
Pharmacy	-	-	-	579	-
Accident & Emergency	-	-	-	10	-
Consultation Clinic	-	-	-	16,070	-
Pathology	-	-	-	25	-
X-ray	-	-	-	13,860	-
Public Inpatient	-	-	-	11,090	-
Intermediate Inpatient	-	-	-	-	-
Dental Clinic	-	-	-	3,309	-
Services of Private Practitioners	-	-	-	-	-
Other Medical Services	-	-	-	5,290	-
Housing Rental	-	-	-	100	-
Administration	-	-	-	185,310	-
Donations	-	-	-	-	-
Total Internal Revenue	K -	K -	K 136,155	K 235,663	K (136,155)
Total Trust Account Revenue	K -	K -	K 2,903,612	K 1,951,197	K (2,903,612)



3d. Appropriation Expenditure - Trust Account

		Appropriation 2016 (K)	Revised 2016 (K)	Expenditure 2016 (K)	Expenditure 2015 (K)	Variance (K)
Recurrent:						
<u>Salaries, Wages, Employee Benefits</u>						
Salaries and Allowances	111	-	-	-	-	-
Wages	112	-	-	-	-	-
Overtime	113	-	-	-	-	-
Leave Pares	114	-	-	-	-	-
Retirement Benefits, Pensions, Gratuities and Retrenchment	141	-	-	-	-	-
		K -	K -	K -	K -	K -
<u>Supplies and Consumables</u>						
Office Materials and Supplies	123	-	-	10,859	12,914	(10,859)
Operational Materials and Supplies	124	-	-	231,648	644,913	(231,648)
		K -	K -	K 242,508	K 657,827	K (242,508)
<u>Utilities</u>						
Utilities	122	-	-	182,027	256,699	(182,027)
		K -	K -	K 182,027	K 256,699	K (182,027)
<u>Administrative Expenses</u>						
Travel and Subsistence	121	-	-	-	-	-
Transport and Fuel	125	-	-	6,746	23,228	(6,746)
Rental of Property	127	-	-	-	-	-
Routine Maintenance Expenses	128	-	-	-	14,421	-
		K -	K -	K 6,746	K 37,649	K (6,746)
<u>Other Operational Expenses</u>						
Other Operational Expenses	135	-	-	980,016	326,087	(980,016)
Medivac Expenses	135	-	-	301,190	108,411	(301,190)
Others (Unknown Exp Items)				1,275,587		(1,275,587)
		K -	K -	K 2,556,792	K 434,498	K (2,556,792)
Total Recurrent		K -	K -	K 2,988,073	K 1,386,673	K (2,988,073)
Development:						
Acquisition of Lands, Buildings	221	-	-	-	-	-
Office Furniture and Equipment	224	-	-	-	33,143	-
Purchase of Vehicles	222	-	-	-	-	-
Construction, Renovation and Improvement	225	-	-	-	25,000	-
Construction, Renovation and Improvement - Project	225	-	-	-	1,080,108	-
Total Development		K -	K -	K -	K 1,138,251	K -
Total Fees Trust Account Expenditure		K -	K -	K 2,988,073	K 2,524,924	K (2,988,073)



3d. Appropriation Expenditure - Trust Account

		Appropriation 2016 (K)	Revised 2016 (K)	Expenditure 2016 (K)	Expenditure 2015 (K)	Variance (K)
Recurrent:						
<u>Salaries, Wages, Employee Benefits</u>						
Salaries and Allowances	111	-	-	-	-	-
Wages	112	-	-	-	-	-
Overtime	113	-	-	-	-	-
Leave Fares	114	-	-	-	-	-
Retirement Benefits, Pensions, Gratuities and Retrenchment	141	-	-	-	-	-
		K -	K -	K -	K -	K -
<u>Supplies and Consumables</u>						
Office Materials and Supplies	123	-	-	10,859	12,914	(10,859)
Operational Materials and Supplies	124	-	-	231,648	644,913	(231,648)
		K -	K -	K 242,508	K 657,827	K (242,508)
<u>Utilities</u>						
Utilities	122	-	-	182,027	256,699	(182,027)
		K -	K -	K 182,027	K 256,699	K (182,027)
<u>Administrative Expenses</u>						
Travel and Subsistence	121	-	-	-	-	-
Transport and Fuel	125	-	-	6,746	23,228	(6,746)
Rental of Property	127	-	-	-	-	-
Routine Maintenance Expenses	128	-	-	-	14,421	-
		K -	K -	K 6,746	K 37,649	K (6,746)
<u>Other Operational Expenses</u>						
Other Operational Expenses	135	-	-	980,016	326,087	(980,016)
Medivac Expenses	135	-	-	301,190	108,411	(301,190)
Others [Unknown Exp Items]				1,275,587		(1,275,587)
		K -	K -	K 2,556,792	K 434,498	K (2,556,792)
Total Recurrent		K -	K -	K 2,988,073	K 1,386,673	K (2,988,073)
Development:						
Acquisition of Lands, Buildings	221	-	-	-	-	-
Office Furniture and Equipment	224	-	-	-	33,143	-
Purchase of Vehicles	222	-	-	-	-	-
Construction, Renovation and Improvement	225	-	-	-	25,000	-
Construction, Renovation and Improvement - Project	225	-	-	-	1,080,108	-
Total Development		K -	K -	K -	K 1,138,251	K -
Total Fees Trust Account Expenditure		K -	K -	K 2,988,073	K 2,524,924	K (2,988,073)



Attachment C – MBPHA Management Letter Response



MILNE BAY PROVINCIAL HEALTH AUTHORITY

LOCKED BAG 402,
ALOTAU, MILNE BAY PROVINCE,
PAPUA NEW GUINEA

6411205 ♦ Digicel: 72319309 ♦ Email: Jacobwmorewaya@gmail.com



OFFICE OF CHIEF EXECUTIVE OFFICER

The Auditor General
Auditor General Office
PO Box 423
Waigani
National Capital District
Papua New Guinea

Date: 22nd May 2020
Our Reference: CEO: 1:6-21
Action Officer: JM/pengo
Designation: a/Dep. Director Corporate Services
Your Reference: 12th May 2020

Dear Sir,

SUBJECT: AUDIT RESPONSE FOR THE PERIOD ENDED 31 DECEMBER 2016

The audit management letter for Milne Bay Provincial Health Authority Board for the period ended 31 December 2016 was received on 21st May, 2020. We acknowledge the audit findings and our responses to the Audit Management letter are as follows;

- 1.0 FINANCIAL STATEMENTS
Audit findings and recommendations have been noted and the management of Milne Bay Provincial Health Authority continues to assess and noted. Improvements and corrections will be accounted in the 2017, 2018 and 2019 Financial Statements.
- 2.0 BUDGETARY CONTROL
Audit observations and recommendations have been noted and will be accounted for in the 2017, 2018 and 2019 Financial Statements.
- 3.0 CASH BOOKS AND BANK RECONCILIATIONS
Audit observations and recommendations have been noted and will be accounted for in the 2017, 2018 and 2019 Financial Statements.
- 4.0 REVENUE MANAGEMENT
Audit observations and recommendations have been noted by the management and corrective actions will be accounted for in the 2017, 2018 and 2019 Financial Statements.
- 5.0 EXPENDITURE ACCOUNT
Audit observations and recommendations have been noted by the management and corrective actions should be reflected in the 2017, 2018 and 2019 Financial Statements.
- 6.0 ASSETS MANAGEMENT
Audit observations and recommendations have been noted by the management and corrective actions should be reflected in the 2017, 2018 and 2019 Financial Statements.

"Milne Bay Provincial Health Authority delivering health services, Health is Everyone's Business"

7.0 ADVANCE MANAGEMENT

Audit observations and recommendations have been noted by the management and corrective actions should be reflected in the 2017, 2018 and 2019 Financial Statements.

8.0 SALARIES AND WAGES


Audit observations and recommendations have been noted by the management and corrective actions should be reflected in the 2017, 2018 and 2019 Financial Statements.

9.0 CORPORATE GOVERNANCE

Audit comments are noted

We take the opportunity to thank the Auditor General's Office to continue to highlight system weaknesses that will help us to improve our financial systems and management.

Yours faithfully,


JACOB MOREWAYA (DR)
ACTING CHIEF EXECUTIVE OFFICER
MILNE BAY PROVINCIAL HEALTH AUTHORITY



"Milne Bay Provincial Health Authority delivering health services, Health is Everyone's Business"