



# Part IV Report of the Auditor-General 2018



Auditor-General's Office of Papua New Guinea



# Part IV

## Report of the Auditor-General 2018

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

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





Telephone: 301 2203 Fax: 325 8295 Website: [www.ago.gov.pg](http://www.ago.gov.pg) Email: [agopng@ago.gov.pg](mailto:agopng@ago.gov.pg)

## OFFICE OF THE AUDITOR-GENERAL

22 October 2019

**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 forward herewith a copy of my report signed on 22<sup>nd</sup> October 2019 upon the inspection and audit of the financial statements of the Public Bodies and their subsidiaries and National Government owned companies for tabling in the National Parliament. This Report (Part IV) also contains information on companies in which the Government does not hold majority interest. Section D of this Report contains information on the status of certain entities whose audits have been in arrears.

Yours sincerely,

**GORDON KEGA MBA, CPA**  
*Acting Auditor-General*





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## **GENERAL**

### **A. FOREWORD**

My Annual Report to the National Parliament for the 2018 financial year is presented in four Parts. Part I deals with the Public Accounts of Papua New Guinea (PNG), Part II deals with National Government Departments and the Provincial Treasury Offices, whilst Part III deals with the audit of the Provincial Governments and Local-level Governments.

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

This Report is divided into four sections:

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

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

#### **A.1 Audit and Delivery of Government Program**

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

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

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

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

In addition, my audit findings that have been repeatedly highlighted show slow progress in making improvements to governance structures and public accountability mechanisms in relation to expending public finances. Without strong governance support, service delivery as envisaged by the National Government risks falling short of its objectives.

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

## **B. AUTHORITY TO AUDIT**

### **B.1 Constitution**

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

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

### **B.2 Audit Act**

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

This Act was amended in 1995 and the relevant provisions of the amended Act are explained below.

### **B.2.1 Auditing and Reporting Requirements**

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

### **B.2.2 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.2.3 Audit Opinion on Financial Statements**

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

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

### **B.3 Public Finance (Management) (Amendment) Act 2016 (PFMA)**

The submission of the financial statements of statutory bodies for audit is required under *Section 63(1) and (3)* of the *Public Finance (Management) (Amendment) Act 2016*. The *Section* requires each statutory body to prepare and furnish to its Minister before end of fourth calendar month from close of a fiscal year, a report on its operations for the year ended 31 December preceding, together with financial statements in respect of that year duly audited by me.

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

### **B.4 Companies Act**

I am required to audit National Government owned Companies and their Subsidiaries under the provisions of the *Companies Act*. Though these companies are registered under the *Companies Act*, my responsibility to audit them is by virtue of *Section 63* of the *PFMA* and *Section 3* of the *Audit Act*.



## C. AUDIT OF PUBLIC BODIES

### C.1 Scope of Audit

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

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

### C.2 Audit Objectives

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

### C.3 Reporting Framework

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

## D. APPOINTMENT AND USE OF AUTHORISED AUDITORS

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

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

## **E. EXECUTIVE SUMMARY**

### **E.1 Report Coverage**

This Report covers the audit reports issued by my Office on the audits of Public Bodies and their Subsidiaries, Government Owned Companies, and National Government's shareholdings in Other Companies during the period July 2018 to June 2019 (2018/2019 Audit Cycle). The Report covers the audits of these entities' financial statements for a number of years, not just 2018.

In **2018** there were **123 public entities** subject to audit by my Office, consisting of **80 Public Bodies and their Subsidiaries** and **43 National Government Owned Companies**.

I am also responsible for reporting on the audits of **2 Companies**, in which the National Government has minority shareholding. These entities are audited by private company auditors and are reported under **Section C** of this Report.

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

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

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

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

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

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

*Section 63(1) and (3)(a) of the PFMA requires ‘...a statutory body to prepare and furnish to the Finance Departmental Head before end of fourth calendar month from close of a fiscal year, a performance and management report of its operations for the year ended 31 December preceding, together with financial statements to enable the Finance Minister to present such report and statements to the Parliament...’*

*Before submitting the financial statements to the Minister, Section 63(3)(c) requires a statutory body to submit the financial statements to the Auditor-General and for the Auditor-General to report to the Minister in accordance with Part II of the Audit Act.*

Despite these legislative requirements, **72 entities** had not submitted their **2018 financial statements** to be audited and overall some **86 financial statements for 2017** and prior years had not been submitted for audit (**Refer Table A**). However, the situation has deteriorated during this cycle.

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

**Table A**

#### STATUS OF AUDITS AS AT 30 JUNE 2019 (END OF 2018/2019 CYCLE)

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Total 2018/2019	Total 2017/2018
2018	6	5	23	17	72	123	-
2017	36	21	13	13	36	119	115
2016	33	12	12	8	16	81	89
2015	27	6	4	7	11	55	64
2014	15	5	1	3	9	33	37
2013	4	-	1	1	8	14	19
2012	2	-	1	1	4	8	9
2011	-	-	-	1	1	2	2
2010	-	-	-	1	1	2	2
<b>Total</b>	<b>123</b>	<b>49</b>	<b>55</b>	<b>52</b>	<b>158</b>	<b>437</b>	<b>337</b>

**Table A** above shows that **227 audits** were either completed, substantially completed or still in progress as at 30 June 2019. The details are graphically depicted in **Attachment ‘C’**, which also included the arrears of prior years.

**Table A** also shows that out of the **123 current year audits (2018)**, only **6 were completed**, with **28 audits** were either substantially completed or were in progress. A further **17 audits** were to commence shortly. Graphical description of the status of current year 2018 audits (excluding arrears) is given in **Attachment ‘A’**. The list of entities is at **Schedule ‘A’ (i), (ii), (iii) & (iv)**.

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

In the period covered (July 2018 to June 2019) by the audit, **123 audit reports were issued**. Of the **123 audit reports issued, 48 were unqualified, 36 were qualified and 39 were Disclaimer Opinions**. The details are captured in **Attachment ‘D’**.

Types of Audit Opinions issued for each entity over the period of six years from **2013 to 2018** are detailed in **Attachment ‘E’**.

#### **E.5 Key Findings**

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

- *Bank reconciliations not being prepared in a timely manner or not at all;*
- *Transactions not having the required supporting documents;*
- *Fixed asset registers not being properly kept or maintained and improper and inconsistent valuation of assets;*
- *Physical count of assets/stock-take not being carried out properly and property acquired or disposed off without proper procedures being followed;*
- *Failure to comply with IFRS/IAS in the preparation of financial statements and breach of public finances management and other statutory provisions;*
- *Travel and other allowances not being fully acquitted;*
- *Payments of taxes to IRC not being followed;*
- *Accounting, administrative and procedural manuals not being available;*
- *Employment contracts, salaries and contract gratuities not available; and*
- *Integrated Financial Managements System (IFMS) limitation in producing general purpose financial statements.*

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<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 transactions of the Company being audited. **Disclaimer Opinion** – When insufficient competent evidential matter exists to form an audit opinion due to scope limitation or uncertainties. **Adverse Opinion** – The Company’s financial statements do not present fairly the financial position, results of operations, or changes in financial position or are not in conformity with generally accepted accounting principles.



## E.6 Non-Submission of Financial Statements

As stated earlier, *Section 63(3)* of the *PFMA* requires each statutory body to prepare and furnish to its Minister before end of fourth calendar month from close of a fiscal year, a report on its operations for the year ended 31 December preceding together with financial statements in respect of that year duly audited by me for tabling in Parliament.

This legislative requirement has not been strictly adhered to by most respective public entities' management. To comply with this requirement, the financial statements are required to be submitted to my Office before 30 April each year for my audit and inspection. However, out of **123 public entities** only **51 (41%)** entities have submitted their financial statements for 2018 (**Refer Schedule A (i), (ii), (iii) & (iv)**) for my audit and inspection up to the time of preparing this Report. A total of **72** entities have failed to comply with these provisions (**Refer Schedule A (v)**). The public entities referred to above exclude the **2 Companies** with minority Government shareholdings.

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

- *My Office not being able to report adequately on the accountability of the use of public resources in a timely manner;*
- *A build-up of audits in arrears; and*
- *The non-tabling of Annual Reports on performance and management by public entities in the Parliament.*

### ***Responsibility for Submission of Financial Statements***

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

### ***Recommendation***

*My Office recommends that there is rigorous enforcement of the provisions of Section 63 of the PFMA and a legislative requirement is established to make the renewal of contracts of Chief Executive Officers subject to submission of financial statements and implementation and maintenance of prudent financial management.*

This recommendation is to help achieve financial management accountability and good governance in the public sector.

During the cycle, **36** entities have audits in arrears totaling to **86**. Details of audits that have gone into arrears due to non-submission of financial statements from 2010 are given below in **Table B** and **Schedule 'C'**.

**Table B**  
**Financial Statements Not Submitted**

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4A	Papua New Guinea Maritime Transport Limited	2013 to 2017	5
2	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	2017	1
3	A	10	Conservation and Environment Protection Authority	2017	1
4	A	19	Legal Training Institute	2017	1
5	A	20	Mineral Resources Authority	2017	1
6	A	25A	National Capital District Botanical Enterprises Limited	2013 to 2017	5
7	A	25B	Port Moresby City Development Enterprises Limited	2013 to 2017	5
8	A	28	National Fisheries Authority	2017	1
9	A	29	National Gaming Control Board	2016 & 2017	2
10	A	29A	National Gaming Control Board Community Benefit Fund Trust	2016 & 2017	2
11	A	30A	National Housing Estate Limited	2015 to 2017	3
12	A	37	National Volunteer Service	2017	1
13	A	40	Oil Palm Industry Corporation	2012 to 2017	6
14	A	44	Papua New Guinea Forest Authority	2017	3
15	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2017	1
16	A	50	Papua New Guinea Sports Foundation	2016 & 2017	2
17	A	51A	National Analytical and Testing Services Limited	2013 to 2017	5
18	A	51B	Unitech Development and Consultancy Company Limited	2014 to 2017	4
19	A	54	Road Traffic Authority	2017	1
20	A	55	Security Industries Authority	2016 & 2017	2
21	A	58A	Unigor Consultancy Limited	2017	1
22	A	59	University of Natural Resources and Environment	2017	1
23	A	60A	Unisave Limited	2012 to 2017	6
24	A	60B	Univentures Limited	2012 to 2017	6
25	B	63	Air Niugini Limited	2017	1
26	B	63A	Air Niugini Cargo Limited	2017	1
27	B	63C	Business Travel Centre Limited	2017	1
28	B	63D	Link-PNG Limited	2017	1
29	B	66C	Kumul Gas Foreland 239 B.V	2017	1
30	B	66D	Kumul Gas Foreland 261 B.V	2017	1
31	B	66E	Kumul Gas Foreland 268 B.V	2017	1
32	B	66F	Kumul Gas Foreland 269 B.V	2017	1
33	B	66G	Kumul Gas Niugini B.V	2017	1
34	B	67	Livestock Development Corporation Limited	2010 to 2017	8
35	B	68	Mineral Resources Development Company Limited	2017	1
36	B	73	PNG Air Services Limited	2016 & 2017	2
					<b>86</b>

### *Arrears Reduction Strategies*

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

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

I have set a goal to significantly reduce the audit in arrears situation and the entities listed under **Attachment ‘F’** indicate the arrears cleared during the audit cycle. This reduction largely reflects the collective efforts of all my staff members to better manage the audits in arrears. This can only be achieved by timely submission of financial statements and cooperation of the entities’ management to clear the arrears.

#### **E.7 Non-Compliance with the Salaries and Conditions Monitoring Committee Act (SCMC)**

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

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

## E.8 Non-Compliance with the *Audit Act 1989*

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

- *Kumul Minerals Holding Limited (formerly Petromin Limited)*;
- *National Development Bank Limited*;
- *PNG Air Services Limited*; and
- *Ok Tedi Mining Limited*.

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

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

- Bank reconciliation statements not being prepared in a timely manner or not being prepared at all;
- Transactions not having supporting documentation;
- Fixed asset registers not being properly kept or maintained;
- No consistent and proper valuation of assets;
- Asset stock-takes not being carried out;
- Property being acquired or disposed of without proper procedures being followed;
- Failure to comply with International Financial Reporting Standards in the preparation of the financial statements;
- Travel and other allowances not being fully acquitted;
- Internal Revenue Commission (IRC) regulations on payment of taxes not being followed;
- Entities paying housing allowances and Board members allowances without tax;
- Accounting, administrative and procedural manuals not being available;
- Public servants serving on Statutory Boards receiving Board allowances contrary to regulations;
- Ineffective internal audit functions;
- Ineffective budget controls; and
- Lack of training on new accounting system (IFMS).

The above factors contributed to the limitations on the scope of my audits which resulted in the issuance of Disclaimer of Opinion in respect of reports issued during the year, as shown in **Attachment 'D(iii)'**.



## **E.10 Poor Financial Management**

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

In my view, the concept of effective, prudent and efficient financial management is yet to be understood and performed by many Chief Executive Officers.

## **E.11 Recommendations for Improvement**

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

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

- *Timely submission of financial statements;*
- *Improved record keeping and documentation;*
- *Maintenance and provision of quality information;*
- *Effective implementation of internal control systems;*
- *Sound financial management implemented and adopted by qualified and experienced accountants;*
- *Implementation of my audit recommendations;*
- *Regular, adequate and timely training on new accounting system (IFMS).*

## **E.12 Improvement Strategies**

In my view, for improvement to occur:

- Chief Executive Officers must employ well trained and professionally qualified accounting staff to manage the financial affairs of the organisation;
- Chief Executive Officers must understand the value of and how to implement a strong governance framework and their performance should be regularly assessed against implementation of the framework; and
- Parliament must increase its reviews of the management of public entities and provide Chief Executive Officers with incentives to improve their management structures.

### **E.13 Structure of the Report**

This Report is structured as follows:

**Section A – Public Bodies and Their Subsidiaries;**

**Section B – National Government Owned Companies;**

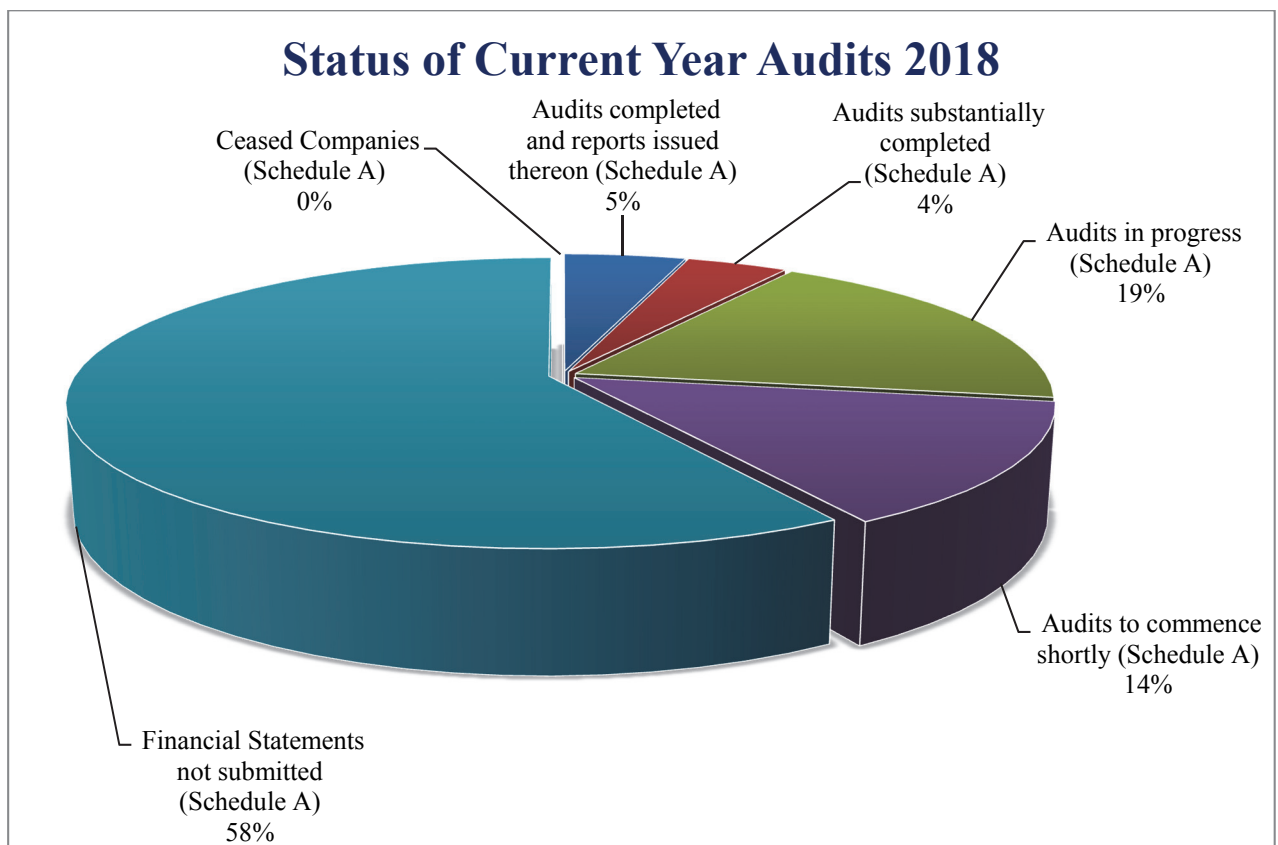
**Section C – National Government Shareholdings in Other Companies; and**

**Section D – Problem Audits (Audits in Arrears).**

## ATTACHMENT 'A'

## STATUS OF CURRENT YEAR AUDITS 2018

No.	Status of Current Year Audits	Number of Entities	
		2018/2019	2017/2018
1	Audits completed and reports issued thereon (Schedule A)	6	0
2	Audits substantially completed (Schedule A)	5	14
3	Audits in progress (Schedule A)	23	27
4	Audits to commence shortly (Schedule A)	17	11
5	Financial Statements not submitted (Schedule A)	72	63
6	Ceased Entities (Schedule D)	0	0
		<b>123</b>	<b>115</b>

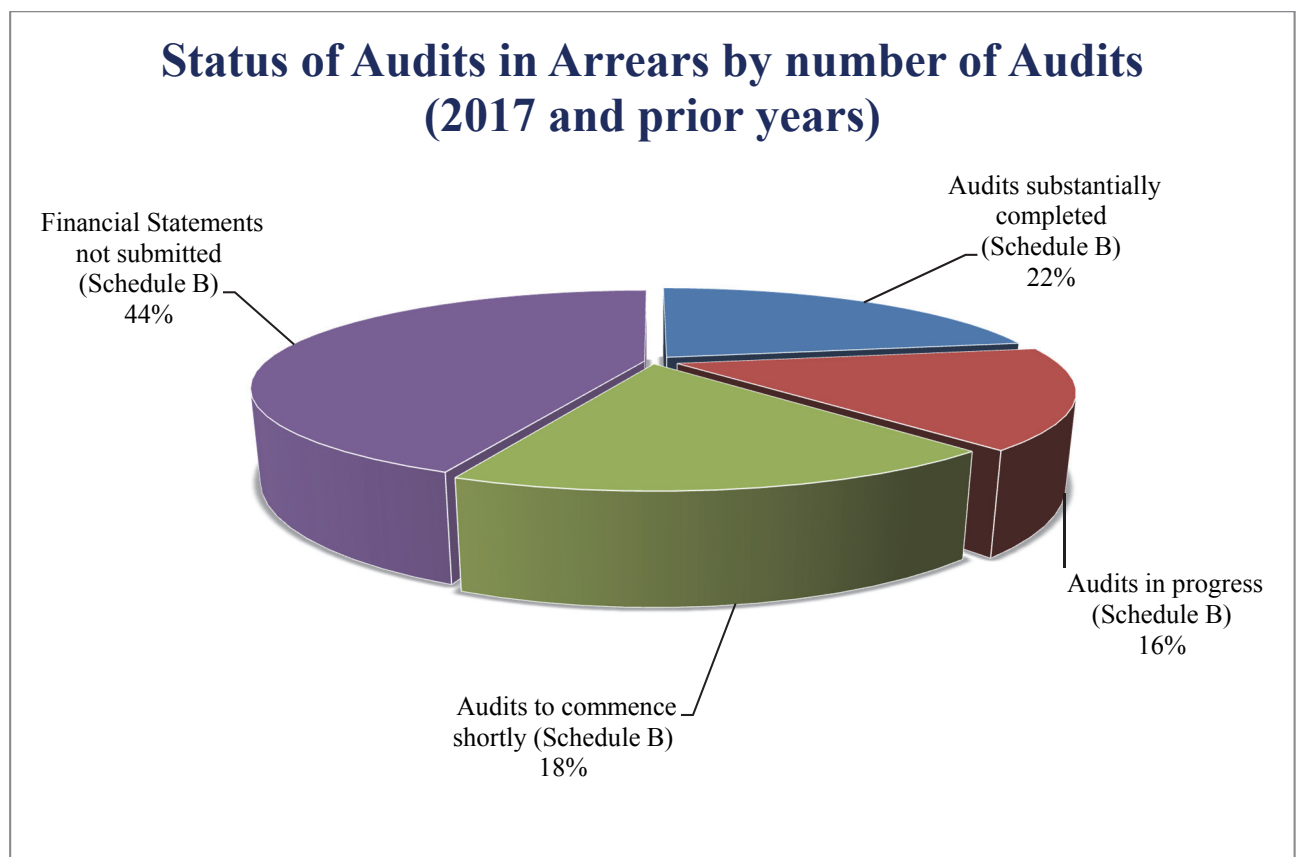


*Please refer to details in Schedule 'A' on Pages 361 to 363.*

## ATTACHMENT 'B'

**STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS  
(2017 AND PRIOR YEARS)**

No.	Status of Audits in Arrears by No. of Audits (2017 & prior years)	Number of Audits	
		2018/2019	2017/2018
1	Audits substantially completed (Schedule B)	44	65
2	Audits in progress (Schedule B)	32	31
3	Audits to commence shortly (Schedule B)	35	13
4	Financial Statements not submitted (Schedule B)	86	87
		<b>197</b>	<b>196</b>

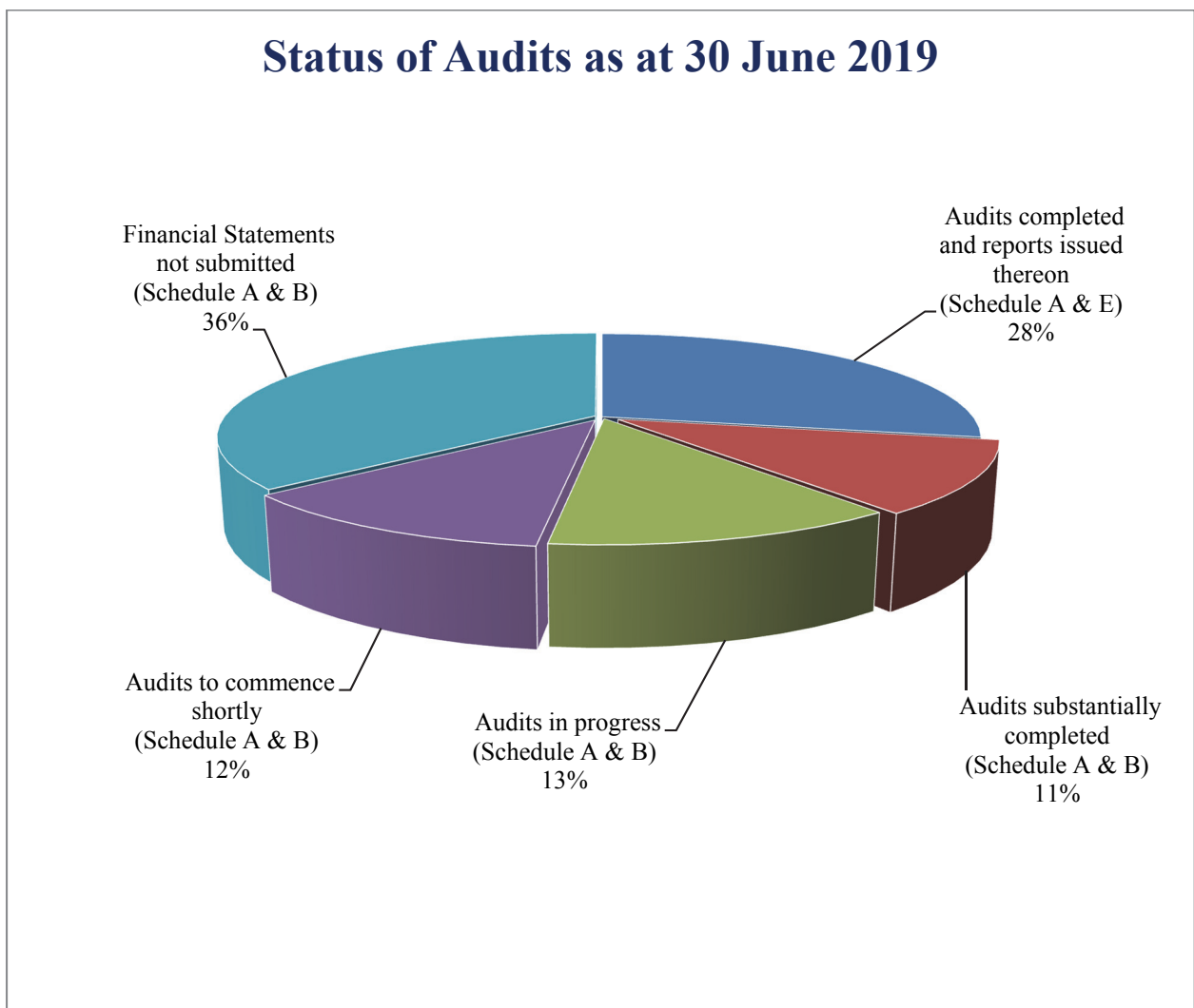


*Please refer to details in Schedule 'B' on Pages 364 to 366.*

## ATTACHMENT 'C'

## STATUS OF AUDITS AS AT 30 JUNE 2019

No.	Status of Audits	Number of Audits	
		2018/2019	2017/2018
1	Audits completed and reports issued thereon (Schedules A & E)	123	26
2	Audits substantially completed (Schedules A & B)	49	79
3	Audits in progress (Schedules A & B)	55	58
4	Audits to commence shortly (Schedules A & B)	52	24
5	Financial Statements not submitted (Schedules A & B)	158	150
		<b>437</b>	<b>337</b>



*Please refer to details in Schedules 'A', 'B' and 'E' on Pages 361 to 363, 364 to 366 and 370 to 372 respectively.*

## ATTACHMENT 'D'

## TYPES OF AUDIT OPINIONS ISSUED

## (i) UNQUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	3	Bank of Papua New Guinea	2017 & 2018	2
2	A	7B	Cocoa Stabilisation Fund	2016 & 2017	2
3	A	12	Independence Fellowship Trust	2017	1
4	A	13	Independent Consumer and Competition Commission	2017	1
5	A	15	Internal Revenue Commission	2014 & 2015	2
6	A	16	Investment Promotion Authority	2017	1
7	A	17	Kokonas Indastri Koporesen	2017	1
8	A	17A	Papua New Guinea Coconut Extension Fund	2017	1
9	A	17B	Papua New Guinea Coconut Research Fund	2017	1
10	A	18	Kumul Consolidated Holdings	2016	1
11	A	18C	PNG Dams Limited	2016	1
12	A	22	National Agricultural Research Institute	2017	1
13	A	23	National AIDS Council Secretariat	2016 & 2017	2
14	A	25C	Port Moresby Nature Park Limited	2014 & 2015	2
15	A	27	National Economic and Fiscal Commission	2017	1
16	A	32	National Maritime Safety Authority	2017	1
17	A	35	National Roads Authority	2016 & 2017	2
18	A	42	Papua New Guinea Accident Investigation Commission	2013 to 2017	5
19	A	45	Papua New Guinea Immigration and Citizenship Service Authority	2017	1
20	A	54	Road Traffic Authority	2016	1
21	A	57	Tourism Promotion Authority	2017	1
22	B	66	Kumul Petroleum Holdings Limited	2017	1
23	B	66B	Kumul Exploration (Asia) Limited	2017	1
24	B	66H	Kumul Lending Co Pte Limited	2017	1
25	B	66L	Kumul Petroleum (Kroton) Limited	2017	1
26	B	66O	Kumul Petroleum Marketing Pte Limited	2017	1
27	B	66P	Kumul Security Agent Limited	2017	1
28	B	69	Motor Vehicles Insurance Limited	2017	1
29	B	70B	Airports Investments Limited	2016 to 2018	3
30	B	72	Papua New Guinea Ports Corporation Limited	2017	1
31	B	76	Post (PNG) Limited	2017	1
32	B	77A	DATEC (PNG) Limited	2016	1
33	B	77B	Kalang Advertising Limited	2014 & 2015	2
34	B	77C	Media Niugini Limited (EMTV)	2016	1
35	B	77D	PNG Directories Limited	2016	1
					<b>48</b>



**(ii) QUALIFIED OPINION**

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	5	Civil Aviation Safety Authority of Papua New Guinea	2017	1
2	A	7	Cocoa Board of Papua New Guinea	2016 & 2017	2
3	A	7A	Cocoa Pod Borer Project Fund	2016 & 2017	2
4	A	10	Conservation and Environment Protection Authority	2015 & 2016	2
5	A	14	Industrial Centres Development Corporation	2016	1
6	A	18A	General Business Trust	2016	1
7	A	18B	Kumul Technology Development Corporation Limited	2016	1
8	A	21	National Agriculture Quarantine and Inspection Authority	2016	1
9	A	23	National AIDS Council Secretariat	2015	1
10	A	28	National Fisheries Authority	2015	1
11	A	29	National Gaming Control Board	2015	1
12	A	29A	National Gaming Control Board Community Benefit Fund Trust	2015	1
13	A	33	National Museum and Art Gallery	2018	1
14	A	41	Ombudsman Commission of Papua New Guinea	2016	1
15	A	43	Papua New Guinea Customs Service	2014 to 2016	3
16	A	45	Papua New Guinea Immigration and Citizenship Service Authority	2016	1
17	A	46	Papua New Guinea Institute of Medical Research	2016 & 2017	2
18	A	48	Papua New Guinea Maritime College	2015 to 2017	3
19	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2016	1
20	A	55	Security Industries Authority	2015	1
21	A	60	University of Papua New Guinea	2014	1
22	B	69	Motor Vehicles Insurance Limited	2018	1
23	B	70	National Airports Corporation Limited	2012 to 2016	5
24	B	74	PNG DataCo Limited	2015	1
					<b>36</b>

**(iii) DISCLAIMER OPINION**

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	6	Climate Change and Development Authority	2013	1
2	A	9	Coffee Industry Corporation Limited	2014 & 2015	2
3	A	9A	Coffee Industry Fund	2014 & 2015	2
4	A	9B	Patana No.61 Limited	2014 & 2015	2
5	A	11	Government Printing Office	2015	1
6	A	25	National Capital District Commission	2014 & 2015	2
7	A	26	National Cultural Commission	2014	1
8	A	28	National Fisheries Authority	2016	1
9	A	31	National Information and Communications Technology Authority (NICTA)	2015	1
10	A	33	National Museum and Art Gallery	2015 to 2017	3
11	A	38	National Youth Development Authority	2014 to 2016	3
12	A	39	Office of the Insurance Commissioner	2016 & 2017	2
13	A	50	Papua New Guinea Sports Foundation	2014 & 2015	2
14	A	58	University of Goroka	2015 & 2016	2
15	A	61	Water PNG	2016 & 2016	2
16	B	68	Mineral Resources Development Company Limited	2015	1
17	B	70	National Airports Corporation Limited	2017 & 2018	2
18	B	70A	Airport City Development Limited	2012 to 2018	7
19	B	75	PNG Power Limited	2016 & 2017	2
					<b>39</b>

## ATTACHMENT 'E'

### COMPARATIVE AUDIT OPINIONS ISSUED (2013–2018)

No.	Section	Para. No.	Entity	Comparative Years					
				2018	2017	2016	2015	2014	2013
1	A	2	APEC Papua New Guinea 2018 Co-ordination Authority	New Inclusion					
2	A	3	Bank of Papua New Guinea	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
3	A	4	Border Development Authority						Disclaimer
4	A	4A	Papua New Guinea Maritime Transport Limited						
5	A	5	Civil Aviation Safety Authority of Papua New Guinea		Qualified	Qualified	Qualified	Qualified	Qualified
6	A	6	Climate Change and Development Authority						Disclaimer
7	A	7	Cocoa Board of Papua New Guinea		Qualified	Qualified	Qualified	Qualified	Qualified
8	A	7A	Cocoa Pod Borer Project Fund		Qualified	Qualified	Unqualified	Unqualified	Unqualified
9	A	7B	Cocoa Stabilisation Fund		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
10	A	8	Cocoa Coconut Institute Limited of Papua New Guinea						Disclaimer
11	A	9	Coffee Industry Corporation Limited				Disclaimer	Disclaimer	Disclaimer
12	A	9A	Coffee Industry Fund				Disclaimer	Disclaimer	Disclaimer
13	A	9B	Patana No.61 Limited				Disclaimer	Disclaimer	Disclaimer
14	A	10	Conservation and Environment Protection Authority	New Inclusion					
15	A	11	Government Printing Office				Disclaimer	Disclaimer	Disclaimer
16	A	12	Independence Fellowship Trust		Unqualified	Unqualified	Qualified	Qualified	Unqualified
17	A	13	Independent Consumer and Competition Commission		Unqualified	Unqualified	Qualified	Qualified	Unqualified
18	A	14	Industrial Centres Development Corporation			Qualified	Qualified	Qualified	Qualified
19	A	15	Internal Revenue Commission				Unqualified	Unqualified	
20	A	16	Investment Promotion Authority		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
21	A	17	Kokonasi Industri Koporesen		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
22	A	17A	Papua New Guinea Coconut Extension Fund		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
23	A	17B	Papua New Guinea Coconut Research Fund		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
24	A	18	Kumul Consolidated Holdings			Unqualified	Unqualified	Unqualified	Unqualified
25	A	18A	General Business Trust			Qualified	Qualified	Qualified	Disclaimer
26	A	18B	Kumul Technology Development Corporation Limited			Qualified	Disclaimer	Disclaimer	Disclaimer
27	A	18C	PNG Dams Limited			Unqualified	Qualified	Disclaimer	Disclaimer
28	A	19	Legal Training Institute						Qualified
29	A	20	Mineral Resources Authority					Qualified	Qualified
30	A	21	National Agriculture Quarantine and Inspection Authority			Qualified	Qualified	Qualified	Qualified
31	A	22	National Agricultural Research Institute		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
32	A	23	National AIDS Council Secretariat		Unqualified	Unqualified	Qualified	Disclaimer	Disclaimer
33	A	24	National Broadcasting Corporation					Disclaimer	Disclaimer
34	A	25	National Capital District Commission				Disclaimer	Disclaimer	Disclaimer
35	A	25A	National Capital District Botanical Enterprises Limited						

No.	Section	Para No.	Entity	Comparative Years					
				2018	2017	2016	2015	2014	2013
36	A	25B	Port Moresby City Development Enterprises Limited						
37	A	25C	Port Moresby Nature Park Limited				Unqualified	Unqualified	Qualified
38	A	26	National Cultural Commission					Disclaimer	Disclaimer
39	A	27	National Economic and Fiscal Commission		Unqualified	Qualified	Qualified	Qualified	Qualified
40	A	28	National Fisheries Authority			Disclaimer	Qualified	Qualified	Qualified
41	A	29	National Gaming Control Board				Qualified	Qualified	Qualified
42	A	29A	National Gaming Control Board Community Benefit Fund Trust				Qualified	Qualified	Qualified
43	A	30	National Housing Corporation					Disclaimer	Disclaimer
44	A	30A	National Housing Estate Limited						
45	A	31	National Information and Communications Technology Authority (NICTA)				Disclaimer	Disclaimer	Disclaimer
46	A	32	National Maritime Safety Authority		Unqualified	Unqualified	Unqualified	Qualified	Qualified
47	A	33	National Museum and Art Gallery	Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
48	A	34	National Research Institute			Qualified	Unqualified	Unqualified	Unqualified
49	A	35	National Roads Authority		Unqualified	Unqualified	Unqualified	Qualified	Qualified
50	A	36	National Training Council			Qualified	Qualified	Qualified	Qualified
51	A	37	National Volunteer Service			Qualified	Qualified	Qualified	Qualified
52	A	38	National Youth Development Authority			Disclaimer	Disclaimer	Disclaimer	Disclaimer
53	A	39	Office of the Insurance Commission	New Inclusion					
54	A	40	Oil Palm Industry Corporation						
55	A	41	Ombudsman Commission of Papua New Guinea			Qualified	Unqualified	Qualified	Unqualified
56	A	42	Papua New Guinea Accident Investigation Commission		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
57	A	43	Papua New Guinea Customs Service			Qualified	Qualified	Qualified	
58	A	44	Papua New Guinea Forest Authority						
59	A	45	Papua New Guinea Immigration and Citizenship Service Authority		Unqualified	Qualified	Disclaimer	Disclaimer	Qualified
60	A	46	Papua New Guinea Institute of Medical Research		Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
61	A	47	Papua New Guinea Institute of Public Administration						Qualified
62	A	48	Papua New Guinea Maritime College		Qualified	Qualified	Qualified	Disclaimer	Disclaimer
63	A	49	Papua New Guinea National Institute of Standards and Industrial Technology			Qualified	Qualified	Qualified	Qualified
64	A	50	Papua New Guinea Sports Foundation				Disclaimer	Disclaimer	Disclaimer
65	A	51	Papua New Guinea University of Technology			Unqualified	Unqualified	Qualified	Qualified
66	A	51A	National Analytical and Testing Services Limited						
67	A	51B	Unitech Development and Consultancy Company Limited						Adverse
68	A	52	Parliamentary Members' Retirement Benefits Fund			Unqualified	Unqualified	Unqualified	Unqualified
69	A	53	Public Curator of Papua New Guinea						Disclaimer
70	A	54	Road Traffic Authority			Unqualified	Unqualified	Unqualified	Unqualified
71	A	55	Security Industries Authority				Qualified	Qualified	Qualified
72	A	56	Small and Medium Enterprises Corporation				Qualified	Qualified	Qualified
73	A	57	Tourism Promotion Authority		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
74	A	58	University of Goroka				Disclaimer	Disclaimer	Disclaimer
75	A	58A	Unigor Consultancy Limited						Disclaimer

No.	Section	Para No	Entity	Comparative Years					
				2018	2017	2016	2015	2014	2013
76	A	59	University of Natural Resources and Environment					Disclaimer	Qualified
77	A	60	University of Papua New Guinea					Qualified	Qualified
78	A	60A	Unisave Limited						
79	A	60B	Univentures Limited						
80	A	61	Water PNG			Disclaimer	Disclaimer	Disclaimer	Disclaimer
81	B	63	Air Niugini Limited				Qualified	Qualified	Qualified
82	B	63A	Air Niugini Cargo Limited	New Inclusion					
83	B	63B	Air Niugini Properties Limited	New Inclusion					
84	B	63C	Business Travel Centre Limited	New Inclusion					
85	B	63D	Link-PNG Limited				Unqualified		
86	B	64	Bmobile Limited	New Inclusion					
87	B	64A	Bmobile (Solomon Islands) Limited	New Inclusion					
88	B	65	Kumul Agriculture Limited	New Inclusion					
89	B	66	Kumul Petroleum Holdings Limited		Unqualified	Unqualified	Unqualified	Unqualified	
90	B	66A	Eda Oil Limited			Unqualified			
91	B	66B	Kumul Exploration (Asia) Limited		Unqualified				
92	B	66C	Kumul Gas Foreland 239 B.V	New Inclusion					
93	B	66D	Kumul Gas Foreland 261 B.V	New Inclusion					
94	B	66E	Kumul Gas Foreland 268 B.V	New Inclusion					
95	B	66F	Kumul Gas Foreland 269 B.V	New Inclusion					
96	B	66G	Kumul Gas Niugini B.V	New Inclusion					
97	B	66H	Kumul Lending Co Pte Limited		Unqualified				
98	B	66I	Kumul LNG Limited			Unqualified	Unqualified	Unqualified	
99	B	66J	Kumul Petroleum (Development) Limited			Unqualified	Unqualified	Unqualified	
100	B	66K	Kumul Petroleum (Investments) Limited			Unqualified	Unqualified	Unqualified	
101	B	66L	Kumul Petroleum (Kroton) Limited		Unqualified	Unqualified			
102	B	66M	Kumul Petroleum (Pipeline) Limited			Unqualified			
103	B	66N	Kumul Petroleum (Tech & Advisory) Limited				Unqualified		
104	B	66O	Kumul Petroleum Marketing Pte Limited		Unqualified				
105	B	66P	Kumul Security Agent Limited		Unqualified				
106	B	66Q	NPCP Oil Company Pty Limited	New Inclusion					
107	B	67	Livestock Development Corporation Limited						
108	B	68	Mineral Resources Development Company Limited				Disclaimer	Disclaimer	Disclaimer
109	B	69	Motor Vehicles Insurance Limited	Qualified	Unqualified	Unqualified	Qualified	Qualified	Qualified
110	B	70	National Airports Corporation Limited	Disclaimer	Disclaimer	Qualified	Qualified	Qualified	Qualified
111	B	70A	Airport City Development Limited	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
112	B	70B	Airports Investments Limited	Unqualified	Unqualified	Unqualified			
113	B	71	NCD Water and Sewerage Limited (Eda Ranu)					Qualified	Qualified
114	B	72	Papua New Guinea Ports Corporation Limited		Unqualified	Unqualified	Unqualified	Qualified	Qualified
115	B	73	PNG Air Services Limited				Qualified	Qualified	Qualified
116	B	74	PNG DataCo Limited				Qualified	Unqualified	

No.	Section	Para No.	Entity	Comparative Years					
				2018	2017	2016	2015	2014	2013
117	B	75	PNG Power Limited		Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
118	B	76	Post (PNG) Limited		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
119	B	77	Telikom (PNG) Limited					Qualified	Qualified
120	B	77A	DATEC (PNG) Limited			Unqualified	Unqualified	Unqualified	
121	B	77B	Kalang Advertising Limited				Unqualified	Unqualified	Unqualified
122	B	77C	Media Niugini Limited (EMTV)			Unqualified			
123	B	77D	PNG Directories Limited			Unqualified	Unqualified	Unqualified	Unqualified

## ATTACHMENT 'F'

AUDITS IN ARREARS (2017 AND PRIOR YEARS) COMPLETED  
DURING 2018/2019 AUDIT CYCLE

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
1	A	3	Bank of Papua New Guinea	2017	1		
2	A	4	Border Development Authority			2014	1
3	A	5	Civil Aviation Safety Authority of Papua New Guinea	2017	1		
4	A	6	Climate Change and Development Authority	2013	1		
5	A	7	Cocoa Board of Papua New Guinea	2016 & 2017	2		
6	A	7A	Cocoa Pod Borer Project Fund	2016 & 2017	2		
7	A	7B	Cocoa Stabilisation Fund	2016 & 2017	2		
8	A	8	Cocoa Coconut Institute Limited of Papua New Guinea			2014 to 2016	3
9	A	9	Coffee Industry Corporation Limited	2014 & 2015	2		
10	A	9A	Coffee Industry Fund	2014 & 2015	2		
11	A	9B	Patana No.61 Limited	2014 & 2015	2		
12	A	10	Conservation and Environment Protection Authority	2015 & 2016	2		
13	A	11	Government Printing Office	2015	1	2016 & 2017	2
14	A	12	Independence Fellowship Trust	2017	1		
15	A	13	Independent Consumer and Competition Commission	2017	1	2018	1
16	A	14	Industrial Centres Development Corporation	2016	1	2017	1
17	A	15	Internal Revenue Commission	2014 & 2015	2	2016 & 2017	2
18	A	16	Investment Promotion Authority	2017	1	2018	
19	A	17	Kokonasi Industri Koporesen	2017	1		
20	A	17A	Papua New Guinea Coconut Extension Fund	2017	1		
21	A	17B	Papua New Guinea Coconut Research Fund	2017	1		
22	A	18	Kumul Consolidated Holdings	2016	1		
23	A	18A	General Business Trust	2016	1		
24	A	18B	Kumul Technology Development Corporation Limited	2016	1		
25	A	18C	PNG Dams Limited	2016	1		
26	A	19	Legal Training Institute			2014 to 2016	3
27	A	21	National Agriculture Quarantine and Inspection Authority	2016	1		
28	A	22	National Agricultural Research Institute	2017	1		
29	A	23	National AIDS Council Secretariat	2015 to 2017	3		
30	A	24	National Broadcasting Corporation			2015 & 2016	2
31	A	25	National Capital District Commission	2014 & 2015	2	2016	1
32	A	25C	Port Moresby Nature Park Limited	2014 & 2015	2	2016	1
33	A	26	National Cultural Commission	2014	1	2015 to 2017	3
34	A	27	National Economic and Fiscal Commission	2017	1		
35	A	28	National Fisheries Authority	2015 & 2016	2		
36	A	29	National Gaming Control Board	2015	1		
37	A	29A	National Gaming Control Board Community Benefit Fund Trust	2015	1		
38	A	31	National Information and Communications Technology Authority (NICTA)	2015	1		
39	A	32	National Maritime Safety Authority	2017	1		
40	A	33	National Museum and Art Gallery	2015 to 2017	3		
41	A	34	National Research Institute			2017	1
42	A	35	National Roads Authority	2016 & 2017	2		
43	A	36	National Training Council			2017	1
44	A	38	National Youth Development Authority	2014 to 2016	3	2017	1
45	A	39	Office of the Insurance Commissioner	2016 & 2017	2		
46	A	41	Ombudsman Commission of Papua New Guinea	2016	1	2017	1
47	A	42	Papua New Guinea Accident Investigation Commission	2013 to 2017	5		
48	A	43	Papua New Guinea Customs Service	2014 to 2016	3		
49	A	45	Papua New Guinea Immigration and Citizenship Service Authority	2016 & 2017	2		
50	A	46	Papua New Guinea Institute of Medical Research	2016 & 2017	2		
51	A	47	Papua New Guinea Institute of Public Administration			2014 to 2017	4
52	A	48	Papua New Guinea Maritime College	2015 to 2017	3		



No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
53	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2016	1		
54	A	50	Papua New Guinea Sports Foundation	2014 & 2015	2		
55	A	52	Parliamentary Members' Retirement Benefits Fund			2017	1
56	A	53	Public Curator of Papua New Guinea			2014	1
57	A	54	Road Traffic Authority	2016	1		
58	A	55	Security Industries Authority	2015	1		
59	A	56	Small and Medium Enterprises Corporation			2016 & 2017	2
60	A	57	Tourism Promotion Authority	2017	1		
61	A	58	University of Goroka	2015 & 2016	2	2017	1
62	A	60	University of Papua New Guinea	2014	1		
63	A	61	Water PNG	2015 & 2016	2		
64	B	66	Kumul Petroleum Holdings Limited	2017	1		
65	B	66A	Eda Oil Limited			2017	1
66	B	66B	Kumul Exploration (Asia) Limited	2017	1		
67	B	66H	Kumul Lending Co Pte Limited	2017	1		
68	B	66I	Kumul LNG Limited			2017	1
69	B	66J	Kumul Petroleum (Development) Limited			2017	1
70	B	66K	Kumul Petroleum (Investments) Limited			2017	1
71	B	66L	Kumul Petroleum (Kroton) Limited	2017	1		
72	B	66M	Kumul Petroleum (Pipeline) Limited			2017	1
73	B	66N	Kumul Petroleum (Tech & Advisory) Limited			2016 & 2017	2
74	B	66O	Kumul Petroleum Marketing Pte Limited	2017	1		
75	B	66P	Kumul Security Agent Limited	2017	1		
76	B	68	Mineral Resources Development Company Limited	2015	1		
77	B	69	Motor Vehicles Insurance Limited	2017	1		
78	B	70	National Airports Corporation Limited	2012 to 2017	6		
79	B	70A	Airport City Development Limited	2012 to 2017	6		
80	B	70B	Airports Investments Limited	2016 & 2017	2		
81	B	71	NCD Water and Sewerage Limited (Eda Ranu)			2015	1
82	B	72	Papua New Guinea Ports Corporation Limited	2017	1		
83	B	74	PNG DataCo Limited	2015	1		
84	B	75	PNG Power Limited	2016 & 2017	2		
85	B	76	Post (PNG) Limited	2017	1		
86	B	77A	DATEC (PNG) Limited	2016	1	2017	1
87	B	77B	Kalang Advertising Limited	2014 & 2015	2	2016	1
88	B	77C	Media Niugini Limited (EMTV)	2016	1	2017	1
89	B	77D	PNG Directories Limited	2016	1	2017	1
					<b>117</b>		
							<b>44</b>



## **SECTION A**

# **PUBLIC BODIES AND THEIR SUBSIDIARIES**



## **1. FOREWORD**

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

The auditing and reporting requirements of the public bodies and their subsidiaries are stipulated in *Section 8* of the *Audit Act*. My findings in that regard are detailed in paragraphs **2** to **61** of this part of my Report.



## **2. APEC PAPUA NEW GUINEA 2018 CO-ORDINATION AUTHORITY**

### **2.1 INTRODUCTION**

#### **2.1.1 Legislation**

The APEC PNG 2018 Co-ordination Authority was established by the *APEC Papua New Guinea 2018 Co-ordination Authority Act 2014*. The Act came into operation on 23 December 2014.

In relation to providing protection and security to the delegates of the APEC PNG 2018, the Joint Task Force (JTF) was established by *Asia Pacific Economic Cooperation (APEC) Safety and Security Act 2017*. The Act came into operation on 13 April 2017.

#### **2.1.2 Functions of the Authority and the Joint Task Force**

1) The functions of the Authority are to:

- liaise and consult with the relevant government departments and State agencies and other stakeholders to ensure the efficient and successful running of the APEC Meetings 2018;
- enter into and perform contracts for the construction and rehabilitation of the APEC Papua New Guinea 2018 venues, ancillary works and services; and
- do all things ancillary to the foregoing.

The Authority shall, in consultation with other government departments and State agencies, organise all logistical matters to ensure that:

- correct protocols are afforded to all delegates;
- all APEC related meetings are held on time;
- all meeting venues and accommodation meet world class standards; and
- all infrastructures associated with APEC meetings meet world class standards and are completed on time.

2) The functions of the Joint Task Force are to:

- assess, detect and respond to threats to the safety and security of APEC 2018, either on land, sea or air, including imminent threats;
- plan, prepare and execute safety and security operations;
- provide logistical and operational support for APEC 2018 safety and security operations;



- implement the operations order;
- plan, design, co-ordinate and implement authorised international partner support for APEC 2018 safety and security operations;
- declare restricted areas;
- establish and maintain a system of accreditation for safety and security purposes;
- establish sector working groups; and
- such other functions as are necessary or incidental to fulfilling its mission.

The Joint Task Force shall carry out its functions subject to the directions of the Commander.

## **2.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Authority for the years ended 31 December 2015, 2016, 2017 and 2018 had been submitted and arrangements were being made to commence the audits shortly.

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

#### **3.1 INTRODUCTION**

##### **3.1.1 Legislation**

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

##### **3.1.2 Objectives of the Bank**

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

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

##### **3.1.3 Functions of the Bank**

The primary functions of the Bank are to:

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

### **3.1.4 Structural Reforms at the Bank**

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

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

Each of these Acts provide additional responsibilities to the Bank.

## **3.2 AUDIT OBSERVATIONS**

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

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Bank for the years ended 31 December 2017 and 2018 were issued on 6 July 2018 and 28 June 2019 respectively. The reports did not contain any qualification.

## **4. BORDER DEVELOPMENT AUTHORITY**

### **4.1 INTRODUCTION**

#### **4.1.1 Legislation**

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

#### **4.1.2 Objectives of the Authority**

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

#### **4.1.3 Functions of the Authority**

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

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

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

#### **4.1.4 Subsidiary of the Authority**

The Subsidiary of the Authority is *Papua New Guinea Maritime Transport Limited*. Comments in relation to the Company are contained in paragraph 4A of this Report.

## **4.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2014 had been completed and the audit reports were being finalised.

The Authority had submitted its financial statements for the years ended 31 December 2015, 2016 and 2017 for my inspection and audit. However, my efforts to conduct these audits were unsuccessful as the Authority's office located at the NDB Building in Waigani was locked. In addition, my attempts to locate the current office location were unsuccessful.

The Authority had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **4A. PAPUA NEW GUINEA MARITIME TRANSPORT LIMITED (Subsidiary of the Border Development Authority)**

### **4A.1 INTRODUCTION**

#### **4A.1.1 Legislation**

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

#### **4A.1.2 Function of the Company**

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

### **4A.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015, 2016, 2017 and 2018 for my inspection and audit despite numerous reminders.

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

### **5.1 INTRODUCTION**

#### **5.1.1 Legislation**

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

#### **5.1.2 Functions of the Authority**

The principal functions of the Authority are to:

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

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

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

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the year ended 31 December 2017 was issued on 14 August 2018. The report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Fixed Assets**

In 2010 the former Civil Aviation Authority (CAA) was restructured into three new separate entities, namely National Airport Corporation (NAC), PNG Air Service Limited (PNGASL) and Civil Aviation Safety Authority (CASA). However, at the time of separation there has been disagreement amongst the three entities over the ownership of the assets owned by the former CAA. On 29 January 2016, the Minister for Civil Aviation allocated the former CAA assets to the three entities through the *National Gazette* No. G39. Although determination for ownership and use of the former CAA assets and properties was done by the Minister, CASA had not accounted for its share of the assets in the books in 2016 and 2017. I also noted that no valuation was performed of the assets and properties used in the operations. Further, it had not been possible for me to confirm whether all the property assets recorded on the Fixed Assets Register at the year end were owned by the Authority.



Consequently, I was unable to satisfy myself on the completeness, existence, valuation, accuracy and ownership of the fixed assets and the related depreciation charges for the year ended 31 December 2017.

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

*Section 147E of the Civil Aviation Act 2000* stipulates for the NAC and the PNGASL to remit certain percentage of airport facility charges, security levies and upper airspace aeronautical charges to CASA. Given the technical and logistical difficulties, it has been difficult for CASA to have independent data to compute its share of the revenue. As a result, CASA could not compute the amount of revenue receivable from the two entities. The current situation places CASA in a position where it is unable to accurately record and collect the income owing by NAC and PNGASL. The income and the related receivables from those two entities are material, which can potentially affect the financial statements and disclosures of CASA as at the reporting date. Due to those limitations, I was not able to verify the completeness and accuracy of revenue and receivable balances reported in the financial statements for the year ended 31 December 2017.

**QUALIFIED OPINION**

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

- (a) the financial statements of Civil Aviation Safety Authority for the year ended 31 December 2017:
  - (i) give a true and fair view of the financial position and the results of its operations for the year then ended; and
  - (ii) the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finance (Management) (Amendment) Act 2016*.
- (b) proper accounting records have been kept by the Authority as far as it appears from my examinations of those records; and
- (c) I have obtained all the information and explanation that were required.”

## 5.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2017 was issued on 14 August 2018. The report contained the following observations:

### Valuation and Registration of Fixed Assets

I noted that Civil Aviation Safety Authority (CASA) has not valued and registered its share of fixed assets allotted from the former Civil Aviation Authority (CAA). The management claimed that the Gazettal Notice issued on 29 January 2016 was in error by allocating certain properties of CASA to National Airport Corporation (NAC) which are yet to be corrected. I advised that the management should consider liaising with NAC to correct the misallocation. I also recommended that the management should consider valuing the allocated assets and have them recorded on the current Fixed Assets Register.

The management responded as:

*“The asset transfer project was completed in 2015 and gazetted in January 2016. However, government gazette No. G39 carried misallocation of CASA properties which were listed under NAC. This oversight was corrected with another government gazette.*

*The assets will be uploaded in CASA’s Fixed Assets Register after a valuation exercise and sub division of the land on which CASA Office stands. Further, note that the residential properties are still subject to pending court proceedings over the ownership question (CAA, NAC, NHC & the occupants). All assets currently in the books were purchased by the Authority who has the legitimate ownership over them.”*

### Revenue Calculation, Billing and Collection from NAC and PNGASL

In 2017, CASA did not have independent data to calculate and bill NAC and PNGASL and collect its share of revenue from airport facility charges, security levies and upper airspace aeronautical charges as per *Section 147 E* of the *Civil Aviation Act 2000*. CASA has been invoicing NAC and PNGASL monthly based on information provided by them. My discussions with the management of CASA revealed that the amounts billed to NAC were estimated and not based on actual data. I noted that CASA continue to face logistical limitation in regard to access to accurate data to bill NAC and PNGASL. As a result, it has been impossible for CASAPNG to compute amount of revenue receivable from the two entities. The current situation places CASAPNG in a position where it is unable to accurately record and collect the income owed by NAC and PNGASL.

I advised the management that more appropriate and reliable approach to charging the levy would be to base on prior year audited accounts of the two entities. Adjustments can be made once the audited accounts are available for the relevant year. I also recommended that since CASA has the authority over the air transport operations including PNGASL and NAC, it should be looking at setting reporting mechanisms in place to capture the data required of levying the fees.

The management responded as:

*“Recommendations noted and accepted by the management. As reported in 2016, the Board directed the management to review the Civil Aviation Act with a view to strengthen and improve the current method of collection of passengers’ levy. It would be preferable to collect the levy directly from the airlines rather than through the NAC. The management has tasked the in-house lawyers to work with DoT legal team to effect the amendment in the Act.”*

#### **Acquittals of Credit Card Transactions and Travel Advance**

I noted that members of the senior management team were issued with credit cards. However, acquittals of credit cards expenditures were not done on a monthly basis. I also noted that un-acquitted expenditures from the use of credit cards were charged against the expense instead of charging the respective credit card holders and recoup through payroll deductions. I advised that failure to have proper control over use of credit cards leads to misuse of funds. I also recommended that members of the senior management team should set a tone by ensuring the use of credit cards and cash advances are acquitted on time and reconciled monthly.

The management responded as:

*“The management noted the recommendation. The senior Finance Officer is responsible to ensure timely monthly reconciliation and acquittal of credit cards transactions. The Office of Director has issued a Policy on use of credit cards including mandatory requirement for monthly reconciliations by the card holders. The full monthly reconciliations are delayed due to inconsistent dispatch of Visa statements by the bank. However, monthly reconciliations were being done on the basis of actual vouchers on hand. The travel expenses relating to airfares quoted above were not Travel Advances but direct expenses. Travel Advances only include daily travel allowances paid to the staff travelling on business trips which are subject to acquittal.”*

## **General Journals**

I noted that a number of general journals that were prepared and entered into the system general ledger were without relevant supporting documentations. I recommended that all relevant supporting documentations must be intact with the journals to ensure validity and completeness of the transactions.

The management responded as:

*“The recommendation is accepted by the management. All general journals are approved by the Finance Manager and Executive Manager Corporate Services. All general journals are supported by relevant documentation.”*

## **5.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2018 was in progress.

## **6. CLIMATE CHANGE AND DEVELOPMENT AUTHORITY (formerly Office of Climate Change and Development)**

### **6.1 INTRODUCTION**

#### **6.1.1 Legislation**

The Office of Climate Change and Development (OCC&D) was created on 22 March 2010 through *NEC Decision No. 54/2010*. On the same date, the NEC in its *Decision No. 53/2010* had noted and approved *NEC Decision No. 181/2009* which abolished the former Office of Climate Change and Environmental Sustainability (OCC&ES). The former OCC & ES was created in 2009 and operated under the Department of Environment and Conservation.

On 10 November 2011, the NEC through its *Decision No. 96/2011* had approved to rescind and amend *NEC Decision No. 53/2010, 54/2010 and 55/2010* and approved for the creation and establishment of *PNG Climate Change Authority (PNGCCA)*. However, SCMC in its meeting held on 22 May 2012 had withheld the submission of the organisational structure as the certified governing Act was not in place.

Then on 27 November 2012, the NEC approved to rescind whole of *NEC Decision No. 96/2011 of 10 November 2011*. As a result, establishment of the PNG Climate Change Authority was abandoned. However, on 28 July 2015, the National Parliament passed the *Climate Change (Management) Act 2015 (No. 19 of 2015)* and certified by the Acting Speaker of the National Parliament on 20 November 2015. Finally, the Climate Change and Development Authority came into existence on that date.

#### **6.1.2 Objectives of the Authority**

The objectives of the Authority are to provide a coordination mechanism at the national level for research, analysis and development of the policy and legislative framework for the management of climate change within the *Government's National Strategy on Climate-Compatible Development (CCD)* as per *NEC Decision No. 55/2010*.

#### **6.1.3 Functions of the Authority**

Major functional responsibilities of the Authority are:

- policy development:
  - adopt and incorporate national strategies and plans on climate change compatible development into the national development strategies and plans;

- coordinate and facilitate the implementation of the National Strategy on Climate Compatible Development;
  - align national development policies and plans to ensure climate compatibility across different government departments;
  - commission research and development to support the development of a comprehensive greenhouse gas inventory and a more comprehensive understanding of the impacts of climate change in the country; and
  - formulate and refine the policy framework and legislation.
- coordination of projects and programs:
    - coordinate with relevant government departments, NGOs, Private Sectors and indigenous landowners (or local forest custodians) to implement and manage pilot projects, demonstration projects and programs.
- stakeholder management and consultation:
    - collaborate and coordinate with development partners to inform and improve upon the Government’s preliminary policy initiatives;
    - coordinate the development of a robust Measurement, Reporting and Verification (MRV) system and a fair and equitable benefit sharing mechanism to protect rights and interest of resource owners; and
    - communicate to the people of PNG the benefits (economic, social and environmental) arising from the implementation of the National Strategy for Climate Compatible Development.
- funding and international negotiations:
    - implement a national financial strategy in collaboration with development partners to build capacity for Reducing Emissions from Deforestation and Forest Degradation Plus Conservation, Sustainable Forest Management and Carbon Stocks Enhancement (REDD+) and other aspects of climate compatible development; and
    - support the Government of PNG with the international climate change negotiations and climate change funding in order to provide consistent and reliable data and finances to improve and sustain forest governance and livelihoods of the forest communities.

## 6.2 AUDIT OBSERVATIONS

### 6.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority’s financial statements for the year ended 31 December 2013 was issued on 18 June 2019. The report contained a Disclaimer of Opinion.

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

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

The Office of Climate Change and Development had used the MYOB accounting system for its business transactions. However, I was not provided with the system generated General Ledger, Trial Balance, Profit & Loss Statement and Balance Sheet from which the financial statements were prepared. There was no audit trail for me to perform the necessary audit procedures and as a result, I was unable to confirm and verify the accuracy and completeness of all the amounts reported in the financial statements for the year ended 31 December 2013. Further, I noted significant breakdown in the internal control environment including financial management systems and record keeping by the management during the year under review. Therefore, I was not able to verify the accuracy and completeness of the financial statements for the year ended 31 December 2013.

### **DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph above, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of the Office of Climate Change and Development for the year ended 31 December 2013.”

## **6.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Authority for the years ended 31 December 2014, 2015, 2016 and 2017 had been submitted for my inspection and audit and arrangements were being made to commence the audits shortly.

The financial statements for the year ended 31 December 2018 had not been submitted for my inspection and audit.

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

### **7.1 INTRODUCTION**

#### **7.1.1 Legislation**

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

#### **7.1.2 Functions of the Board**

The principal functions of the Board are to:

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

#### **7.1.3 Subsidiary of the Board**

The Cocoa Coconut Institute Limited of PNG (*formerly PNG Cocoa and Coconut Research Institute*) was amalgamated with PNG Cocoa and Coconut Extension Agency Limited in 2003. The Institute is owned equally by the Cocoa Board and the Kokonas Industri Koporesen (KIK) of PNG. Comments in relation to the Cocoa Coconut Institute Limited of PNG are contained in paragraph 8 of this Report.

#### **7.1.4 Project and Stabilisation Funds**

The Board as a Trustee administers the *Cocoa Stabilisation Fund* as required under Part IV and VI of the *Cocoa Act 1981*. Further, the Board manages the *Cocoa Pod Borer Project Fund* as well. Comments in relation to the Funds are contained in paragraphs 7A and 7B of this Report.

## **7.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

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

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Board's financial statements for the periods ended 30 September 2016 and 2017 were issued on 31 July 2018 and 18 March 2019 respectively. The reports contained similar Qualified Opinions, hence, only the 2017 report is reproduced.



## “BASIS FOR QUALIFIED OPINION

### Fixed Assets – K3,611,326

My review of the fixed assets revealed that the Fixed Assets Register (FAR) provided by the Board was incomplete and has not been properly maintained. I noted the following issues during my examination.

- The vehicle schedule provided for my review had 29 vehicles listed with registration numbers owned by the Board. However, the Fixed Assets Register disclosed only Fourteen (14) vehicles;
- Projects’ assets were not captured in the Fixed Assets Register nor a separate Register maintained (Cocoa Nursery, Quality & Freight & Subsidy); and
- Assets such as vehicles, tractors, motor bikes and laptops were not captured in the Fixed Assets Register.

As a result, I was unable to ascertain the accuracy, existence, valuation and completeness of the fixed assets balance disclosed as K3,611,326 at year end.

## QUALIFIED OPINION

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

- a) the financial statements of the Board are based on proper accounts and records; and
- b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Board as at 30 September, 2017 and the results of its financial operations and cash flows for the year then ended.”

### 7.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the period ended 30 September 2016 and 2017 were issued on 31 July 2018 and 18 March 2019 respectively. The reports contained similar significant matters, hence, only the 2017 report is reproduced:

#### **Non-Compliance with the *Public Finance (Management) (Amendment) Act 2016***

The Board had not submitted its financial statements for the period ended 30 September 2017 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) (Amendment) Act 2016*.

Consequently, the Board had breached *Sections 63(1) and 63(3) of the Public Finance (Management) (Amendment) Act 2016*.

*“Cocoa Board has taken steps to ensure that in future the financial statements are prepared and submitted on a timely basis to comply with Sections 63(1) and 63(3) of the Public Finance (Management) (Amendment) Act 2016.”*

### **Cash at Bank**

My review and the examination of the cash at bank and bank reconciliations revealed that the bank reconciliations for the Main Operating and Projects accounts namely Cocoa Quality & Marketing, Cocoa Freight Subsidy and Cocoa Nursery were not prepared, reviewed and verified by concerned officers of the Board on a timely basis in 2017. I also noted that stale cheques amounting to K89,867 were outstanding over 12 months. I was not provided with subsequent months' bank reconciliations for my verification and further testing of unpresented cheques. As a result, I was not able to place reliance on the effectiveness of the controls surrounding the bank reconciliation functions.

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

*“Cocoa Board has taken steps and will ensure it maintain timely preparation of bank reconciliations including segregated duties in the preparation through to verification and certification stages of preparation of bank reconciliation. All stale cheques have been written back and cleared as recommended by the Audit.”*

### **Fixed Assets**

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

- **Fixed Assets Register (FAR)**

The Fixed Assets Register (FAR) was incomplete as it was not properly updated and has not fully captured all the assets owned by the Board. In addition, the vehicle list provided for audit verification has twenty-nine (29) vehicles while the FAR shows only fourteen (14). I further noted that additions and disposals of motor vehicles used in other Centres including Projects were not properly registered in the FAR. I recommended the Management of the Board to do a full stock-take to update the Fixed Assets Register.

I drew this matter to the attention of the Management of the Board and they responded to my observation as follows:

*“Management took note of the audit recommendation and advised that there is now a team in place to update and record all assets and to carry out stock-take of all assets available.”*

- **Stock-Take**

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

As a result, I was unable to place reliance on the effectiveness of the controls surrounding the management of fixed assets. Consequently, I was not able to comment on the condition, valuation and existence of the fixed assets disclosed.

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

*“The fixed assets update and maintenance exercise has now been initiated by Management to address this issue. A stock-take exercise has commenced at the head office to ensure all assets are tagged with identification numbers for verification and control and will roll out to the regional offices and sub-branches.”*

## **Income**

My review of the income of the Board revealed the following weaknesses:

- **Cocoa Fermentary Central Database**

I noted that the Board did not have a complete and central database of all the registered cocoa fermentaries in the country apart from the Registered Exporters, which was provided for my review. About twelve percent (12%) of the total income disclosed during the year was generated from fermentary registrations and other related licenses. As a result, I was unable to ascertain the total number of registered fermentaries in the country, their status, location and other statistics and, whether all fermentaries were registered and fees collected accordingly in 2017. I recommended that a complete central database of all fermentaries and other related licenses be created and maintained by the Board.

I drew this matter to the Management and they responded to my query as follows:

*“A Regional Offices Information Management System Database has been developed and is in its final review stage. It was workshopped in Kokopo in October 2018. The database was programmed by a Contractor and it’s been improved based on Management requirements. Cocoa Fermentary Central Data will be centralized in Kokopo. Apart from this, work is underway to update and maintain Fermentary Master Listing at the FS secretariat. This is to be evident in the 2018 audit.”*

- **Reconciliation of Revenue Collections**

I observed that the two revenue generating sections of the Board, Economic Section (for levy fees collection) and Export Quality Section (for export & dry beans licences) records of fees collected had not reconciled to what was recorded by the receipting division and disclosed in the financial statements at period ended 30 September 2017. As a result, I was unable to ascertain the accuracy and completeness of the revenue collections presented in the financial statements for the period ended 30 September 2017. I recommended the Board to ensure proper coordination and reconciliation be carried out on a timely manner with effective monitoring and surveillance to ensure that cocoa exports were done through registered sales contracts.

I drew this issue to the attention of the Management and the Management responded as follows:

*“The Account Receivable office has commenced reconciliation of data collection from the two revenue generating Sections.”*

- **Goods and Service Tax Returns**

During my review, I observed that the Board had disclosed GST receivable as K2,813,875 and GST payable as K840,545 in the financial statements during the period under review. However, I advised the Board’s Management to reconcile the GST inputs against the GST outputs and to disclose only the difference in the financial statements as either payable or receivable. I also recommended that the Management of the Board to liaise with Internal Revenue Commission (IRC) to agree on the net payables/receivables for settlement to avoid any penalties.

I drew this issue to the attention of the Board’s Management and they responded as follows:

*“Tax returns have been submitted for the year under review up till March 2018. Accounts will need the updated Statement from IRC to then update our ledgers and Lodgments will be up-to-date as soon as 2018 accounts are finalized.”*

- **Group Tax Remittance**

I noted that the Board did not remit the group tax (salary & wages) to IRC on a timely basis which resulted in the accumulation of the balance of group tax of K1,419,650 as at 30 September 2017. As a result, the Board had not complied with the requirement of *Section 299G* of the *Income Tax Act 1959 (as Amended)*.

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

*“Due to the current financial constraints Cocoa Board was not able to lodge returns with payments on a timely basis to Internal Revenue Commission (IRC). Communication with IRC is ongoing in this regard and IRC has advised Accounts team to continue to lodge monthly SWT without payments so, Cocoa Board records at IRC are updated.”*

## **Debtors and Prepayments**

- **Staff Advance**

During my review of the Debtors and Prepayments, I observed that this account balance related to Cash Advances given to officer on duty travel and advances in-relation to events organised by the Board. However, I noted that there was an increase during the year by K112,364 compared to prior year. Furthermore, I noted unpaid or outstanding balances of former employees of the Board still shown under staff advances. As a result, I was unable to place reliance on the control environment surrounding the management and control of Staff Advances. I recommended the Management of the Board to ensure proper control be put in place to manage the staff advances. Further, proper reconciliation had to be done regularly to the staff advances to accurately and fairly state the balance in the financial statements at year end.

I highlighted this issue to the Management of the Board and they responded as follows:

*“Main reason for significant increase was that Accounts and Payroll have not recouped these staff advances. Management will ensure that these deductions are effected immediately.”*

- **Rental Bond – K58,394**

The Board paid rental bonds when renting Staff accommodation or offices around the country. However, during my review, I observed that there were certain houses that were already vacated by the Board but the bonds paid had not been refunded. As a result, I was unable to ascertain the accuracy of the rental bond balance disclosed in the financial statements during the period ended 30 September 2017.

I recommend that this balance be properly reconciled and updated. Management responded to my query as follows:

*“There has been a letter to those landlords that have not refunded bond fees and until today, there is still no payment from them. The Management of the Board will issue final 14-days notices/Demand letters to these landlords. Failure to response will result in CB instituting legal action against the defaulters.”*

### **Personnel Files**

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

I brought this issue to the attention of the Management and they responded to my observation as follows:

*“Management agrees with audit findings and has taken note of the audit recommendations and HR team is now tasked to review and update all employee files as recommended.”*

### **Payments without three (3) written Quotations and Public Tender**

During my review of the expenditure, I observed that payment totaling K295,248 were made without obtaining three (3) written quotations from different suppliers. As a result, the Board has not complied with the requirements of *Section 61 of the Public Finance (Management) (Amendment) Act 2016* and *Financial Instruction 2-2013 subsection 5.2*.

I brought this matter to the attention of the Board and the Management of the Board responded to my observation as follows:

*“Management has taken note of the audit issue. Cocoa Board will also establish agreements with our main suppliers so to avoid this issue from recurring. It was noted that most of these expenditures identified were travel related. However moving forward, we will ensure three (3) quotations are obtained for expenditure over K5,000. Three (3) quotes policy to be effective immediately.”*

### **Travel Advance Register**

My review of travel and subsistence expenses amounting to K186,674 for the period ended 30 September 2017 revealed lack of travel acquittals by concerned staff of the Board. There was Travel Advances Register maintained by the Board in 2017 however, there was no proper acquittal forms, receipts and Airline Boarding pass maintained in the file.

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

I brought this matter to the attention of the Board and they responded to my observation as follows:

*“The Board will comply with the requirements per the Financial Management Manual and advised that an officer was appointed to monitor and update the Travel Advance Register.”*

### **PIP Grants**

During my review of the Project grants (PIP) and deferred income (unspent grant), I noted that K13 million was appropriated for two (2) projects, Cocoa Nursery and Cocoa Freight Subsidy of K5.1 and K5.950 million respectively while Cocoa Quality did not receive any funding. However, these funds were not transferred to the respective Project accounts but retained in the main operating account of the Board. Out of this, fifteen percent (15%) of the total project grant of K13 million about K1.950 million was deducted by the Board as Project management fees and the balance was transferred at certain intervals in small amounts to the respective Project accounts. As a result, I was unable to place reliance on the controls surrounding the management of these Project accounts by the Board. Consequently, I was unable to ascertain the accuracy of the Project accounts disclosed for the period under review. I recommended the Board not to retain Project funds in the Main Account but to transfer immediately to the respective Project accounts.

I also recommended that all Project accounts maintained separate MYOB accounts to correctly recognise and classify funds movements and deferred income accordingly.

I drew this issue to the attention of the Management and they responded as follows:

*“The management of Cocoa Board have taken note of the audit recommendation where Accounts will ensure that project funds are promptly transferred to respective project account as soon as they hit the CBPNG operating account. Accounts to also maintain a separate MYOB system for project accounts.”*

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

At the time of preparing this Report, the financial statements of the Board for the year ended 31 December 2018 was submitted and arrangements were being made to commence the audit shortly.



## **7A. COCOA POD BORER PROJECT FUND**

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

#### **7A.1.1 Framework**

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

#### **7A.1.2 Objectives of the Project Fund**

The Principal objectives of the Project Fund are to:

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

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

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

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Fund for the periods ended 30 September 2016 and 30 September 2017 were issued on 31 July 2018 and 18 March 2019 respectively. The reports contained Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Limitation of Scope – Debtors, Creditors and Deferred Income**

During my examination of Debtors and Prepayments, Trade Creditors and Accruals and Deferred Income, I was not provided with schedules and supporting documents to confirm the account balances totalling K97,232, K70,242 and K394,212 respectively. As a result, I was unable to verify the balances disclosed in the financial statements as at 30 September 2017.

## QUALIFIED AUDIT OPINION

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

- (a) the financial statements of the Fund 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 30 September 2017 and the results of its financial operations for the year then ended.”

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

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Fund for the periods ended 30 September 2016 and 30 September 2017 were issued on 31 July 2018 and 18 March 2019 respectively. The reports contained similar observations, hence, only the 2017 comments are reproduced:

#### Preparation of Bank Reconciliations

My review of bank reconciliations of the Fund revealed that the bank reconciliations were not prepared, reviewed and verified by concerned officers of the Project on a timely basis in 2017. As a result, I was not able to place reliance on the effectiveness of the controls surrounding the management of cash and the bank reconciliation process.

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

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

#### Fixed Assets Register (FAR)

My review of the Fund’s Fixed Assets Register (FAR) revealed that the Register was not properly maintained during the period under review. I noted that the FAR was incomplete as it did not include asset numbers, model and serial numbers of the different types of assets listed. For instance, registration numbers for the motor vehicles were not provided in the FAR and assets were not tagged for verification or easy identification. As a result, I was unable to place reliance on the controls surrounding the management of the fixed assets acquired and used by the Fund during the year under review.

The Management responded to comments as follows:

*“Management take note of your recommendations and there is a team in place to update and record all assets, also carrying out stock takes of all assets available.”*

### **Going Concern**

The Cocoa Pod Borer Fund’s accounts and records were prepared on a Going Concern basis during the period ended 30 September 2017. However, during my review it was revealed that the fund account remained dormant during the year. In response, the Management explained that the Fund would be closed in the future upon Board’s approval.

### **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 2018 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

## **7B. COCOA STABILISATION FUND (Subsidiary of Cocoa Board of PNG)**

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

#### **7B.1.1 Legislation**

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

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

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

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Fund's financial statements for the periods ended 30 September 2016 and 30 September 2017 were issued on 31 July 2018 and 18 March 2019 respectively. The reports did not contain any Qualification.

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

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Fund for the periods ended 30 September 2016 and 30 September 2017 were issued on 31 July 2018 and 18 March 2019 respectively. The reports contained similar observations, hence, only the 2017 comments are reproduced:

##### **Non-Compliance with the *Public Finance (Management) (Amendment) Act 2016***

The Board had not submitted the Fund's financial statements for the year ended 30 September 2017 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) (Amendment) Act 2016*. Consequently, the Fund has breached *Sections 63(1)* and *63(3)* of the *Public Finance (Management) (Amendment) Act 2016*.

*“Cocoa Board has taken steps to ensure that in future the financial statements are prepared and submitted on a timely basis to comply with Sections 63(1) and 63(3) of the Public Finance (Management) (Amendment) Act 2016.”*

### **Going Concern**

The Cocoa Stabilization Fund accounts and records were prepared on a Going Concern basis during the period ended 30 September 2017. However, my examination revealed that the fund account remained dormant over the years. In response, the Management stated that the Board had decided to close this account in the future based on the NEC decision.

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

At the time of preparing this Report, the Fund had submitted its financial statements for the year ended 31 December 2018 and arrangements were being made to commence the audit shortly.

## **8. COCOA COCONUT INSTITUTE LIMITED OF PAPUA NEW GUINEA**

### **8.1 INTRODUCTION**

#### **8.1.1 Legislation**

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

#### **8.1.2 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;
- promote research and beneficial programs for these industries;
- provide assistance to all persons and bodies engaged in any aspect of the Cocoa and Coconut industries;
- produce planting materials for the Cocoa and Coconut industries; and
- provide consultancy services.

### **8.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2014, 2015 and 2016 had been completed and awaiting the signed financial statements from the Company to issue the reports.

The Company had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit.

## **9. COFFEE INDUSTRY CORPORATION LIMITED**

### **9.1 INTRODUCTION**

#### **9.1.1 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.

#### **9.1.2 Functions of the Corporation**

The principal functions of the Corporation are to:

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

#### **9.1.3 Fund and Subsidiary of the Corporation**

The Corporation has a Fund and a Subsidiary Company, *Coffee Industry Fund and Patana No.61 Limited*. Comments in relation to the Fund and the Subsidiary are contained in paragraphs 9A and 9B respectively of this Report.

## **9.2 AUDIT OBSERVATIONS**

### **9.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Company for the years ended 31 December 2014 and 2015 were issued on 28 September 2018 and 16 May 2019 respectively. The reports contained similar Disclaimer of Opinions, hence, only the 2015 report is reproduced.

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

### **Opening Balances**

My report on the Company’s financial statements for the year ended 31 December 2014 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of cash and cash equivalents, trade receivables, inventories, property, plant and equipment, trade creditors, bank overdrafts, inventories, group tax, other payables, employee entitlements and accumulated fund. Since these opening balances entered into the determination of the results of operations and cash flows of the Company in 2015, I was unable to determine whether adjustments to the financial position, results of operations, cash flows and changes in equity might have been necessary for the year ended 31 December 2015.

### **Non Consolidation of Kofi Management Services Limited**

Kofi Management Services Limited (KMSL) is a subsidiary of Coffee Industry Corporation Limited. KMSL was incorporated through Investment Promotion Authority (IPA) on 21 February 2014. KMSL has an operating bank account with Bank South Pacific Limited (BSP) since 2015. However, the Company did not maintain separate set of accounting books to capture its transactions made through the BSP account for the 2015 financial year; instead the transactions were captured in the books of the parent company. This practice was not in compliance with *Companies Act 1997*.

Since there was no separate set of accounts for KMSL, I could not review the accounts of the Company and issue an opinion on the financial statements for the year ended. Also, I was unable to determine whether the account of the KMSL was appropriately consolidated with the parent company as required by *IAS 27, Consolidated and Separate Financial Statements*.

Consequently, I was unable to determine whether the consolidated financial statements presented for my review was complete and fairly represent the financial information for the year ended 31 December 2015.

### **Internal Control over Financial Reporting**

My review of the internal controls over financial reporting revealed that adequate accounting records including important registers such as investments registers, Fixed Assets Register, registration fees schedule, general journal documentations and important reconciliations were not maintained. Also, the general ledgers were not properly reconciled. These shortcomings placed limitations on my efforts to obtain sufficient appropriate audit evidence for my opinion.



As a result, I could not comment on the completeness, accuracy and validity of the balances reported in the consolidated statement of financial position and the income and expenditure statement for the year ended 31 December 2015.

**Cash and Cash Equivalents – K9,674,949 (2014:K28,051,072)**

Included in the Cash and Cash Equivalents balance of K9,674,949 as disclosed in *Note 9* to the consolidated financial statements was an amount of K76,966 representing cash on hand, an amount of K57,025 (Cr) representing cash at bank in the London Imprest Account, an amount of K45,729 representing Coffee Industry Fund's cash at bank, an amount of K117,700 representing CIC Freight Surety Account and an amount of K5,458,418 representing Coffee Industry Fund's Interest Bearing Deposit (IBD). No reconciliations on the above accounts were made available for my review to determine their accuracy and completeness.

Further, details on subsequent presentation of the un-presented cheques dated back to June 2015 valued at K1,720,834 were not made available for my review. Consequently, I was not able to verify the completeness, existence, accuracy and validity of the cash and cash equivalents balance as reported in the financial statements.

**Trade and Other Debtors – K11,452,510 (2014: K5,651,733)**

Included in the Trade and Other Debtors balance of K11,651,733 as disclosed in *Note 7* to the consolidated financial statements was an amount of K509,192 representing rental debtors, an amount of K66,614 representing interest receivables, an amount of K920,493 representing amount due from project partners, an amount of K3,211,705 representing Coffee Industry Fund trade debtors, an amount of K5,384,942 representing sundry debtors and prepayments, an amount of K1,627,671 as GST receivable, an amount of K90,731 as staff debtors, an amount of K121,085 as receivable from other debtors and an amount of K479,922 (credit) representing provision for doubtful debts. I was not provided with the required audit information or other appropriate records to enable me to conduct audit tests on these balances and their subsequent receipts. Therefore, I was not able to satisfy myself as to the completeness, existence and accuracy of the trade and other debtors balance as reported in the consolidated statement of financial position for the year ended.

**Inventories – K519,779 (2014: K405,112)**

As at 31 December 2015, the inventories of the Company valued K519,779 as disclosed in *Note 10* to the consolidated financial statements. I did not observe and witness the physical inventory count conducted by the Company. In addition, adequate inventory records were not maintained during the period. Owing to the nature of the Company's records, I was not able to satisfy myself as to the inventory quantities by other alternative audit procedures.

Furthermore, the Company did not maintain satisfactory records to substantiate valuation of its inventories. Consequently, it has not been practicable to extend my audit procedures to satisfy myself on the completeness, existence, accuracy and valuation of the inventories.

**Property, Plant and Equipment – K12,592,313 (2014: K12,031,443)**

The Company had not maintained sufficient records, including a Fixed Assets Register and titles to the lands and buildings to enable me to complete my audit tests on its properties, plants and equipment valued at K12,592,313 and reported in the consolidated statement of financial position. Also, physical verification was not carried out to verify the existence of the same. Further, I was unable to determine whether a valuation was done to the Company's lands and buildings disclosed at K6,939,137 in *Note 13* to the consolidated financial statements. Consequently, it has not been practicable to extend my audit procedures to satisfy myself on the completeness, existence, accuracy, rights and valuation of the Company's properties, plants and equipment and related depreciations valued at K1,232,377 and charged to the consolidated statement of income and expenditure for the year ended.

**Trade Creditors and Accruals – K9,008,606 (2014: K9,422,412)**

As at 31 December 2015, trade creditors and accruals have been reported at K9,008,606 in the consolidated statement of financial position. This amount represented K782,373 in trade creditors and K8,226,233 in other creditors and accruals as disclosed in *Note 14* to the consolidated financial statements. Included in the other creditors and accruals balance of K8,226,233 was an amount of K6,020,637 representing sundry creditors and accruals, an amount of K3,094,670 representing tax payables and an amount of K32,138 relating to trade creditors of Coffee Industry Fund. Adequate records were not maintained to substantiate these balances. Due to poor record keeping, inadequate accounting procedures and significant non-compliance issues identified in these areas, I was not able to determine the completeness, accuracy and validity of the trade creditors and accruals balance of K9,008,606 reported as at 31 December 2015.

**Accumulated Funds – K25,085,235 (2014: K36,571,523)**

The total accumulated fund balance of K25,085,235 (2014:K36,571,523) stated in the consolidated statement of changes in accumulated funds was derived after processing an adjustment of K1,137,636 in the revenue reserve account. The adjustment was processed as a balancing adjustment to tie prior year revenue reserve balance to that of the current year. The Corporation was unable to explain the variance in the revenue reserve account to which the above adjustment was processed. Therefore, I was not able to verify the validity of the balancing adjustment processed, completeness and accuracy of the accumulated funds reported.

**Revenue – K12,423,017 (2014: K38,728,051)**

The Company's total revenue for the year was K12,423,017. Included in this balance as stated in *Note 5(b)* to the consolidated financial statements was an amount of K3,170,080 relating to National Government funding, an amount of K4,516,186 related to coffee export levy, an amount of K959,330 relating to coffee sales, an amount of K1,137,106 relating to rents received and an amount of K268,640 relating to sundry income.

I was not provided with important details including warrants in respect of the National Government funding of K3,170,080 and supporting documentation on various journals that were processed in respect of the coffee export levy income of K4,516,186. Invoices, receipts and bank statements were not provided in respect of the coffee sales income of K959,330, rent received income of K1,137,106 and the sundry income of K268,640. I was therefore unable to test these balances by other alternative means. Consequently, I was not able to obtain sufficient appropriate audit evidence to comment on the completeness, accuracy and the validity of the Company's total revenue of K12,423,017 as reported for the year ended.

**Expenditure – K25,048,944 (2014: K19,124,625)**

The Company's total expenditure for the year was K25,048,944 as disclosed in *Note 5(c)* to the consolidated financial statements. Due to the weaknesses in internal controls over financial reporting, the Company was unable to provide me the details of these expenditures that were requested during my review. I was therefore unable to complete my audit procedures designed to test for the completeness, accuracy and validity of the expenditures. Consequently, I was not able to comment on the completeness, accuracy and validity of the Company's affairs as at 31 December 2015 and of the results and cash flows for the year then ended.

**DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs above, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the consolidated financial statements of Coffee Industry Corporation Limited as at 31 December 2015, its financial performance and its cash flows for the year then ended.

**EMPHASIS OF MATTER****Status of the Coffee Industry Corporation Limited**

I was provided with the copy of the *Coffee Industry Corporation (Statutory Functions and Powers) Act 1991* and according to this Act, Coffee Industry Corporation is a Corporation and not a "Limited Company".

Unless Parliament by an Act amends the existing Act to corporatise the Coffee Industry Corporation, the word “*Limited*” used by the Corporation is not appropriate. I was not provided with the amended Act for me to determine the appropriateness of incorporating this Corporation under the *Companies Act 1997*.”

### **9.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The Company had submitted the financial statements for the year ended 31 December 2017 for my inspection and audit and arrangements were being made to commence the audit shortly.

The Company had not submitted the financial statements for the year ended 31 December 2018 for my inspection and audit.

## **9A. COFFEE INDUSTRY FUND**

### **9A.1 INTRODUCTION**

#### **9A.1.1 Legislation**

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

### **9A.2 AUDIT OBSERVATIONS**

#### **9A.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Fund for the years ended 31 December 2014 and 2015 were issued on 28 September 2018 and 11 June 2019 respectively. The reports contained similar Disclaimer of Opinions, hence, only the 2015 report is reproduced.

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

##### **Opening Balances**

My report on the Fund for the year ended 31 December 2014 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of trade receivables, trade creditors, tax balances and investments. Since these opening balances entered into the determination of the results of operations and cash flows of the Fund in 2015, I was unable to determine whether adjustments to the balance sheet and profit and loss account might have been necessary for the year ended 31 December 2015.

##### **Internal Control over Financial Reporting**

My review of the internal controls over financial reporting of the Fund revealed that adequate accounting records including important registers such as investments register, trade and other receivables, trade creditors listing and loan schedules were not properly maintained. The general ledger was also not properly reconciled. These shortcomings placed limitations on my efforts to obtain sufficient appropriate audit evidence for my opinion. As a result, I could not comment on the completeness, accuracy and validity of the balances reported in the balance sheet and the profit and loss statement for the year ended 31 December 2015.

**Trade and Other Receivables – K3,211,705 (2014: K3,237,603)**

The financial statements reported K3,211,705 as trade debtors as at 31 December 2015. The management did not provide the listings or other relevant documentation for my review. Consequently, I was unable to satisfy myself as to the completeness and accuracy of the trade and other receivables balance reported in the financial statements as K3,211,705 for the year ended.

**Investments – K5,458,418 (2014: K5,433,476)**

Note 3 to the financial statements disclosed K5,458,418 as Interest Bearing Deposit (IBD). However, I was not provided with IBD reconciliation statements or certificate for my verification. As such, I was unable to determine the ownership, completeness and accuracy of the Investment (IBD) balance taken up in the financial statements as K5,458,418 as at 31 December 2015.

**Tax – K170,006 (2014: K154,723)**

As at 31 December 2015 an amount of K170,006 was recorded as tax receivable from Internal Revenue Commission (IRC). This amount comprised of K35,213 and K134,793 as dividend withholding tax receivable and GST receivables respectively. There was an increase of K15,283 from the prior year balance but no relevant documentation was made available for my review. These balances had been carried forward for a number of years. Therefore, I was unable to comment on the completeness, accuracy and appropriateness of the tax receivable balance disclosed in for the year ended.

**Trade Creditors – K32,138 (2014: K32,138)**

Trade Creditors was disclosed at K32,138 as at 31 December 2015. However, no appropriate documentation or listing was made available for my review to determine the validity of this balance and also for a number of years the same balance had been taken up as payable. Consequently, I was unable to ascertain the completeness and accuracy of the trade payable balance reported for the year ended.

**Interest Income – K22,919 (2014: K54,817)**

The Fund disclosed in its profit and loss statement K22,919 as interest income for the year. There was a decrease of K31,898 in the interest income over past year, however, I was not provided with appropriate explanation or documentation for the decrease. Therefore, I was unable to comment on the accuracy and completeness of the interest income for the year ended.

## **DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of the Coffee Industry Fund as at 31 December 2015 and of its financial performance, financial position and its cash flows for the year then ended.”

### **9A.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Fund for the year ended 31 December 2016 was in progress.

The Fund had submitted the financial statements for the year ended 31 December 2017 for my inspection and audit and arrangements were being made to commence the audit shortly.

The Fund had not submitted the financial statements for the year ended 31 December 2018 for my inspection and audit.

## **9B. PATANA NO.61 LIMITED (Subsidiary of Coffee Industry Corporation Limited)**

### **9B.1 INTRODUCTION**

#### **9B.1.1 Legislation**

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

### **9B.2 AUDIT OBSERVATIONS**

#### **9B.2.1 Comments on Financial Statements**

My reports in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the years ended 31 December 2014 and 2015 were issued on 28 September 2018 and 11 June 2019 respectively. The reports contained similar Disclaimer of Opinions, hence only the 2015 report is reproduced.

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

##### **Opening Balance**

My report for the year ended 31 December 2014 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of fixed assets and intercompany loan which impacted the share capital and reserves. Since these opening balances enter into the determination of the results of operations and cash flows of the Company in 2015, I was unable to determine whether adjustments to the balance sheet, profit and loss statement, and notes to the financial statements might have been necessary for the year ended 31 December 2015.

##### **Internal Control over Financial Statements**

My review of the internal controls over financial reporting revealed that adequate accounting records including important registers such as the fixed assets and loan registers were not maintained. Also, the general ledger accounts were not properly reconciled. These shortcomings placed limitations on my efforts to obtain sufficient appropriate audit evidence for my opinion. As a result, I could not be able to comment on the accuracy, completeness and validity of the balances reported in the balance sheet and the profit and loss statement for the year ended 31 December 2015.



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

I was not provided with the loan agreement entered into between the Company and its parent entity (Coffee Industry Corporation) to verify the terms and conditions of the loan and the repayment schedule. There was no movement in the loan amount since the loan was obtained from the parent entity. I was therefore, unable to ascertain the validity and accuracy of the loan amount of K806,393 reported as payable to the parent company as at 31 December 2015.

**Going Concern**

The Company was dormant during the year with a net asset position in deficit by K246,690 as at 31 December 2015. This reflects a company which is technically insolvent. I was not provided with a business recovery plan by the Company detailing the measures management intends to take in their endeavor to bail the Company out of its current position, nor a letter of support from the parent entity, Coffee Industry Corporation as a parent entity affirms its continued financial support to ensure continuity of the Company as a separate business entity. As such, I was unable to comment whether or not the company will continue to operate on the going concern basis.

**Fixed Assets - K559,704**

The Company has not maintained sufficient records including a Fixed Assets Register to enable me to complete my audit tests on its fixed assets reported at K559,704 in the balance sheet. Also, physical verification was not carried out to verify the existence of the same. Further, I was unable to determine whether a valuation was done to the Company's land and buildings reported at a cost of K766,744 in *Note 5* to the financial statements. Consequently, it has not been practicable to extend my audit procedures to satisfy myself on the completeness, existence, accuracy and valuation of the Company's property, plant and equipment and related depreciations of K7,713 charged to the profit and loss statement.

**DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial position of Patana No.61 Limited as at 31 December 2015, and of its financial performance and cash flows for the year then ended.”

### **9B.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The Company had submitted its financial statements for the year ended 31 December 2017 for my inspection and audit and arrangements were being made to commence the audit shortly.

The Company had not submitted the financial statements for the year ended 31 December 2018 for my inspection and audit.

## **10. CONSERVATION AND ENVIRONMENT PROTECTION AUTHORITY**

### **10.1 INTRODUCTION**

#### **10.1.1 Legislation**

The *Conservation and Environment Protection Authority Act 2014* was drafted and Certified on 30 May 2014, establishing the Conservation and Environment Protection Authority.

Prior to May 2014, the Conservation and Environment Protection Authority was operating as a Department of National Public Service.

#### **10.1.2 Functions of the Authority**

The functions of the Authority are to:

- do all things necessary for the conservation and protection of the environment in accordance with the environmental conservation laws and any policy directions of the Minister and the National Executive Council;
- co-ordinate with provincial and local-level governments and sub-national authorities to foster, manage and monitor environmental conservation strategies and programmes in the country;
- relation to land under the care, control and management of the Authority:
  - *to establish and maintain zoological and botanical parks and gardens;*
  - *to permit and assist zoological and botanical research; and*
  - *to construct buildings, walks, drives, fences, enclosures, dams, reservoirs, drains and other structures for or in connection with the purposes of the Authority;*
- impose and receive rents, fees, charges and bonds in respect of its functions under any environmental conservation law, including but not limited to providing services related to the approval and issue of environment permits and the investigation and audit of activities under the *Environment Act 2000*;
- promote Papua New Guinea's laws, regulations and policies relating to conservation and environment matters within the country and overseas;
- give advice to the Minister and maintain dialogue with other government agencies on environmental conservation laws and policies;
- encourage, accept, administer and allocate aid monies, whether from within the country or elsewhere, for purposes consistent with its objects;

- accept donations, gifts, devises and bequests made to the Authority and control, manage and develop those donations, gifts, devises and bequests in accordance with any conditions attached to them;
- where it considers it necessary or convenient to do so, to establish committees and similar bodies in relation to its functions, in accordance with regulations and to that effect; and
- perform such other functions and duties as may be conferred on it by the Authority's Act or any other law.

## 10.2 AUDIT OBSERVATION

### 10.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the years ended 31 December 2015 and 2016 were issued on 22 January 2019. The reports contained similar Qualified Opinions, hence, only the 2016 report is reproduced.

#### “BASIS FOR QUALIFIED OPINION

##### Accounting for Government Grants

Government grants were accounted for on cash basis which does not comply with *International Accounting Standards (IAS) 20* on Government Grants.

#### QUALIFIED OPINION

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statements of the Conservation and Environment Protection Authority for the year ended 31 December 2016:

- give a true and fair view of the financial position and the results of its operations for the year then ended; and
- the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act 1995*.”

## 10.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit.

## **11. GOVERNMENT PRINTING OFFICE**

### **11.1 INTRODUCTION**

#### **11.1.1 Legislation**

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

The functions of the Printing Office are empowered by *Section 252 of the Constitution, the Interpretation Act (Chapter 2)* and *Printing of the Laws Act (Chapter 333)*.

#### **11.1.2 Objective of the Office**

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

## **11.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **11.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4) of the Audit Act* on the financial statements of the Printing Office for the year ended 31 December 2015 was issued on 10 September 2018. The report contained a Disclaimer of Opinion.

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

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

##### **Opening Balances**

I issued a disclaimer of opinion in respect of the year ended 31 December 2014 and prior years as I was unable to satisfy myself as to the accuracy of the opening balances. I was also unable to quantify the effects of misstatements, if any, which might have a bearing on the results of the operations of the Office. Since the opening balances of 2014 enter into the determination of the balances reported in 2015 financial statements, I was unable to place reliance on the closing balances stated in the financial statements and the reliability of the financial records maintained by the Office for 2015.

**Cash at Bank – K3,297,491**

My examination of the Cash at Bank account and its related records revealed that the preparation of the financial statements including monthly bank reconciliations were outsourced to an accounting firm.

My review of the bank reconciliations and their related records revealed the following:

- Bank reconciliations were not timely prepared and reviewed by independent senior officers for both the GPO Trust Account and the Operating Account;
- The Operating Account of the Government Printing Office had not been properly reconciled for the year under review. The bank reconciliation balance of K3,168,682 did not agree with the cashbook balance of K3,001,493, resulting in a variance of K167,189; and
- Further, I noted that the bank reconciliation was not reconciled to the general ledger. As a result, cheques totalling K125,640 which were cleared during the year were incorrectly shown as unrepresented cheques at year end.

Consequently, I was unable to confirm the accuracy of the bank balance of the main Operating Account disclosed in the financial statements at year end.

**Trade Debtors – K5,626,864**

My review of the Trade Debtors account for the Printing Office revealed that the Printing Office does not have a properly maintained Debtors Control Account for the period under review. Further, I noted that there were inconsistencies between the Debtors Control Account and the amount stated in the original source documents (invoices). The periodic reconciliation between these records is an important internal control measure. As a result, I noted the following:

- Debtors amounting to K5.8 million were still outstanding from all credit sales as at December 2015;
- Paid invoices totalled K307,235 were still captured in the reconciliation and were not cleared at year end;
- Invoices totalled K174,121 were incorrectly captured in the debtors control account with particulars different from the original source documents;
- Invoices totalled K160,089 representing cancelled jobs were not removed from the debtors control account; and
- Invoices totalled K816,260 which were cancelled and reissued as new invoices were not correctly reflected in the debtors control account.

The management in its response stated that some correcting entries were made however, I was not provided with the details to ascertain the accounts that were affected and their ending balances. As such, I was unable to satisfy myself as to the accuracy and completeness of the trade debtors balance disclosed at year end.

**Property, Plant and Equipment – K4,417,685**

My review of the fixed assets and capital expenditures for the year ended 31 December 2015 revealed that the Printing Office had not fully complied with *Part 32* of the *Financial Management Manual* by not maintaining an updated Fixed Assets Register.

The following discrepancies were observed:

- No proper stock take was carried out to update the Fixed Assets Register and fairly state the assets value for the year under review;
- No proper reconciliations were done between the general ledger and the Fixed Assets Register;
- Assets (cannon printing equipments) totalled K25,188 purchased in 2004 and 2007 were neither in the custody of the Printing Office nor had been disposed; and
- Tangible assets recorded in the Fixed Assets Register were not tagged and labelled with serial numbers. Consequently, I was unable to physically verify and locate the assets totalled K825,284.

As such, I was unable to ascertain and conclude on the accuracy, valuation and existence on the written down value of K4,417,685 for Property, Plant and Equipment and their associated depreciation charge of K864,435 disclosed in the financial statements at year end.

**Revenue – K10,256,013**

My review of the revenue account and its related supporting documents revealed that there were no timely reconciliations done between the general ledgers and the Inward Cashbook Register (ICR) for proper recording and disclosure at year end. Consequently, I noted a variance of K437,598 between the general ledger and financial statements balance of K11,588,732 and the Inward Cashbook Register balance of K11,151,134 provided to me. The final accounts disclosed revenue as K10,256,013 resulting in an unexplained difference of K1,312,612. As such, I was unable to conclude on the accuracy and completeness of the revenue balance of K10,256,013 disclosed in the financial statements.

**Provision for Long Service and Recreation Leave**

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

## DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of Government Printing Office for the year ended 31 December 2015.”

### 11.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act* on the inspection and audit of the accounts and records of the Printing Office for the year ended 31 December 2015 was issued on 10 September 2018. The report contained the following comments:

#### Financial Procedural Manual

My review of the Printing Office’s reporting framework revealed that there was a draft Financial Procedural Manual compiled for its staff to carry out tasks in accordance with the procedures and guidelines that is applicable to the Printing Office. However, I noted that this draft Procedural Manual did not capture all processes within the Printing Office like the fixed assets, bank accounts, staff advances and staff workplace policies. I also noted that this Manual was not adequately communicated down to all operational and administration staff. It would be in the best interest of the management to compile a Manual to incorporate all necessary accounting and reporting processes of the Printing Office.

Management responded that the draft Manual was circulated to management for final input. Once this process is completed, the final draft would be forwarded to Departmental Head for endorsement.

#### Land Acquisition – K2,595,425

I noted that the management had taken the corrective actions to comply with the requirements of *Public Finances (Management) Act* and rectify the procedural errors that were overlooked at the time of acquiring twenty (20) portions of un-serviced blocks of land (Section 480, Allotments 31-50, Hohola) purposely for its Staff Housing Policy. I recommended that the Printing Office expedite the process of obtaining the land titles for the Staff Home Ownership Scheme for the benefit of staff employed by the Printing Office.

#### Motor Vehicle – Toyota Prado (BED 986)

My review and examination of the motor vehicles recorded in the Fixed Assets Register and disclosed in the financial statements revealed that the Printing Office purchased the above motor vehicle at a cost of K293,741 in 2014 through cheque number 5821.



However, I was not provided with the payment details and the registration documents. Further, physical inspection could not be performed as the vehicle had been forcefully possessed by the former Government Printer in February 2015 during his resignation.

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

*“It was the official vehicle for the former Government Printer and is still registered under Government Printing Office and pending outright purchase by the former Printer.”*

### **Inventory**

My review of the assets of the Government Printing Office again revealed that the inventory component had not been disclosed as a current asset in the financial statements for the year under review. The *International Accounting Standards 2* requires a proper valuation and disclosure of inventory as an asset in the statement of financial performance of an entity. I recommended management to do a stock take at year end and disclose the inventory in the financial statements at year end.

### **Expenditure**

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

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

## **11.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Printing Office for the years ended 31 December 2016 and 2017 had been completed. The management responses had been received and the audit reports are expected to be issued shortly.

The Printing Office had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **12. INDEPENDENCE FELLOWSHIP TRUST**

### **12.1 INTRODUCTION**

#### **12.1.1 Legislation**

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

#### **12.1.2 Objective of the Trust**

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

#### **12.1.3 Functions of the Trust**

The functions of the Trust are to:

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

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

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

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Trust for the year ended 31 December 2017 was issued on 30 July 2018. The report did not contain any qualification.

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

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Trust for the year ended 31 December 2017 was issued on 30 July 2018. The report contained the following observations:

##### **Fixed Assets**

As reported in my previous reports, the Independent Fellowship Trust did not maintain proper Fixed Asset Register to record the purchases and disposals of its assets. I further noted that no stock-take was carried out over the years to update the Fixed Assets Register and fairly state the assets value. Most assets purchased over the years were not recorded and updated in the Register.

The Management in its response stated that they would give their utmost best to carry out a complete stock-take and update the Register accordingly.

### **Travel and Subsistence**

My review of the expenditures revealed that the Trust had not properly maintained the Travel Advance/Acquittal Register as required under *Financial Management Manual (Part 20)*. During my review, I noted internal control weaknesses in relation to incomplete acquittals and lack of supporting documents for duty travels.

I recommended the Trust to maintain a Travel Advance/Acquittal Register to record all duty travels taken and to update regularly with all travel documents. I drew this matter to the attention of the Management and the Management responded as follows:

*“We will maintain a travel advance and acquittal register to record all duty travels taken and the register be maintained and updated regularly as of today in preparation for 2019 audits.”*

### **12.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Trust for the year ended 31 December 2018 had been completed and the audit reports were being finalised.

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

### **13.1 INTRODUCTION**

#### **13.1.1 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.

#### **13.1.2 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 consumers;
- 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
- do all other things relating to consumer affairs.

## **13.2 AUDIT OBSERVATIONS**

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

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the year ended 31 December 2017 was issued on 30 July 2018. The report did not contain any qualification.

## **13.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2018 had been completed and the results were being evaluated.

## **14. INDUSTRIAL CENTRES DEVELOPMENT CORPORATION**

### **14.1 INTRODUCTION**

#### **14.1.1 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.

#### **14.1.2 Functions of the Corporation**

The main functions of the Corporation are:

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

### **14.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

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

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Corporation for the year ended 31 December 2016 was issued on 11 March 2019. The report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

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

The Corporation in its financial statements disclosed its trade debtors balance as K2,939,956 (included as part of total debtors of K3,229,549) at year end. I noted that of the K2,939,956 receivable, K1,518,618 still remained outstanding for a considerable period of time, therefore the collectability of this amount is in doubt. Further, I was unable to establish whether the Corporation has made adequate provision against these debts. As such, I was unable to satisfy myself as to the accuracy and collectability of the trade debtors as reported at year end.

**Fixed Assets – K65,289,199**

My review of the fixed assets of the Corporation revealed that the Fixed Assets Register (FAR) was incomplete as it was not properly updated and has not fully captured all the assets owned by the Corporation. There were additional purchases of fixed assets not recorded and disclosed in the financial statements including the depreciation calculation as at 31 December 2016. I further noted that the disposals of Land & Building and Computer Equipment during the year were not approved by the Corporation's Board. Further, the Corporation has not conducted any stock take on its fixed assets for a number of years. As a result, I was unable to neither place reliance on the effectiveness of the control surrounding the management of the fixed assets nor comment on the condition, valuation and existence of the fixed assets disclosed at the year end.

**Land Sales Debtors – K289,566**

Included in the total debtors of K3,229,549 were land sales debtors totaled K289,566. I observed that land sales debtors had been outstanding since 2008. The Corporation has not provided adequate provision for doubtful debts in its accounts. Consequently, I was unable to ascertain the accuracy, correctness and collectability of the trade debtors as reported in the financial statements at 31 December 2016.

**Cash at Bank – K3,232,586**

The independent bank confirmation certificate for the Business Growth Centre (BGC) account for the year ended 31 December 2016 was not provided for my review. As a result, I was unable to confirm the closing bank balance as reported in the financial statements.

**QUALIFIED OPINION**

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

- a) the financial statements are based on proper accounts and records; and
- b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Corporation for the year ended 31 December 2016 and the results of its financial operations and cash flows for the year then ended.”

## 14.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2016 was issued on 11 March 2019. The report contained the following observations:

### **Advance / Acquittal Register**

The Corporation had not maintained Advance/Acquittal Register for Head Office and Malahang Industrial Centre despite my recommendation in my previous audits. Due to non-existence of Advance/Acquittal Register during the year under review, I was unable to trace the authenticity of advances against its acquittals.

The management responded to my query as follows:

*“This matter is now been attended to with an appointment of a travel Officer who will amongst handing all other associated duties for this position will maintain receipts of all Acquittals.”*

### **Staff Advance**

My review of the Corporation’s staff debtors revealed that there was no proper control, monitoring and recovery of the staff advances. As a result, recouping staff advances was slow and ineffective. I also noted that the Corporation had no policy on staff advances to control, monitor, recover and deal with those who don’t comply with it. As such, staff advances amounting to K111,553 were outstanding (without movement) for a considerable period of time.

The management responded to my query as follows:

*“This matter is now being seriously looked at, hence corrective measures have now been taken by the management to ensure fixed amounts are now being imposed on each staff through payroll deduction for settlements of such advances are given out. On the question of the recovery of staff advances outstanding for more than 4 years and without movements to recover; steps are now taken to ensure their severance or termination payments are duly calculated for the purpose of been set off against their outstanding staff accounts. After this action is taken and if the outstanding debt is deemed uncollectable, management will take a decision to make provision for these outstanding amounts and eventually write them off.”*

### **Business Growth Centre**

My review of the fixed assets revealed that the Fixed Assets Register and other information in relation to the fixed assets under the Business Growth Centre were destroyed/lost at the time when the officer in charge of these records left employment with the Corporation.



Consequently, I was unable to establish the value of assets under the Business Growth Centre at year end. As a result, the accuracy and completeness of the fixed assets disclosed in the financial statements cannot be ascertained as there were no records to support the movements of assets under the Business Growth Centre.

I drew my observation to the Management of the Corporation and they responded as follows:

*“Management will ensure the relevant information is collected from the previous existing records to be verified and sanctioned by the Head of the Division so that a proper and authentic record is maintained reflective of the current asset.”*

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

The Corporation had not prepared and submitted its financial statements to my Office before 31 March 2017 to enable me to conduct the audit and issue the audit report within the time frame stipulated in the *Public Finances (Management) Act 1995*. Consequently, the Corporation had breached *Section 63(2)* and *63(4)* of the above *Act*.

#### **Expired Employment Contracts**

During my review, I noted that eight (8) officers’ employment contracts were expired and were not renewed at the time of audit. The same observation was noted during my audit in 2015.

I sought explanation from the ICDC Management and they responded to my concern as follows:

*“The contract of employment for all contract Officers expired and were never renewed due to the fact that the Managing Director at that time was never formerly appointed. I have now renewed their contracts and some positions will be advertised shortly.”*

#### **GST Payable – K1,032,177**

During my review of GST, I observed that the Corporation had not submitted the GST Returns for the year under review as per the *GST Act 2003 (Section 63-66)* which stipulates that GST has to be remitted within 21 days for the subsequent taxable period or (accounting period). This practice would attract penalty by IRC in additional tax payable at the rate of 10% on the amount owing and 20% calculated on annual basis.

I sought explanation from the ICDC Management and they responded to my concern as follows:

*“This matter has surfaced most recently a sum of K315,774,630 was paid to IRC for the 2014/2017 period following a meeting with officials from IRC and ICDC to continue making regular payments on timely in future. Meanwhile, management will ensure the GST Returns are done on timely basis.”*

### **Other Internal Control Weaknesses**

Other weaknesses noted during my review were:

- Certain cost on preliminary activities were over spent by the Corporation on the projects still remained incomplete;
- Salary Sacrifice Approval from IRC was not sought for two officers;
- Inadequate control over cash encashment and payment to suppliers;
- Reconciliations of general ledger accounts were not prepared on a periodic basis and the expenditure general ledgers for Business Growth Centre were not made available for my audit inspection; and
- There was no Internal Audit Unit established as per *Section 9 of the Public Finances (Management) Act 1995*.

*I drew management’s attention to these weaknesses and I was advised that steps have been taken to address these issues.*

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

At the time of preparing this Report, the fieldwork associated with the inspection of accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2017 had been completed and management letter was issued on 3 June 2019. The management letter responses were being awaited for me to finalise and issue the audit reports.

The Corporation had not submitted the financial statements for the year ended 31 December 2018 for my inspection and audit.

## **15. INTERNAL REVENUE COMMISSION**

### **15.1 INTRODUCTION**

#### **15.1.1 Legislation**

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

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

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

#### **15.1.2 The Objective of the Commission**

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

#### **15.1.3 The Powers and Functions of the Commission**

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

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

## 15.2 AUDIT OBSERVATIONS

### 15.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the four months period ended 31 December 2014 and year ended 31 December 2015 were issued on 10 September 2018 and 22 March 2019 respectively. The reports did not contain any qualifications.

### 15.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the year ended 31 December 2015 was issued on 22 March 2019 and contained the following comments:

#### **Tax Revenues**

*Note # 11* forming to and parts of the statement of receipts and payments of the Commission contains information relating to the taxes collected and remitted on behalf of the Government of Papua New Guinea (PNG). These taxes were collected from all sources through two (2) main bank accounts. All direct taxes and Inland GST were collected through the IRC Administrative bank account while Import GST were collected through the National GST Trust account. The Commission then remitted from these two (2) bank accounts to the recipients nominated by law. However, during my review, I was not provided with sufficient appropriate audit evidence such as cashbooks, bank statements and bank reconciliations for the two (2) bank accounts to verify the balances. As a result, I was unable to satisfy myself as to the accuracy and completeness of the total taxes collected and remitted on behalf of Government of PNG in 2015.

#### **Fixed Assets**

My review of the fixed assets revealed the following:

- no annual stock take and physical inspection were carried out during the year; and
- no titles of land and building were provided for my verification of the ownership of land and building the Commission owns.

As a result, I was unable to place any reliance on the effectiveness of the internal controls surrounding the management of fixed assets.

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

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records, and the examination of the financial statements of the Commission for the years ended 31 December 2016 and 2017 had been completed and the management responses were being awaited to finalise the audit reports.

The Commission had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **16. INVESTMENT PROMOTION AUTHORITY**

### **16.1 INTRODUCTION**

#### **16.1.1 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*.

#### **16.1.2 Functions of the Authority**

The principal functions of the Authority are to:

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

### **16.2 AUDIT OBSERVATIONS**

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

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the year ended 31 December 2017 was issued on 3 August 2018. The report did not contain any qualification.

### **16.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and the examination of the financial statements of the Authority for the year ended 31 December 2018 had been completed and the results were being evaluated.

## **17. KOKONAS INDASTRI KOPORESEN (Formerly Copra Marketing Board of PNG)**

### **17.1 INTRODUCTION**

#### **17.1.1 Legislation**

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

The *Kokonas Industri Koporesen Act* subsequently established PNG Coconut Extension Fund and PNG Coconut Research Fund. Comments in relation to these Funds are contained in paragraphs 17A and 17B respectively, of this Report.

#### **17.1.2 Functions of the Koporesen**

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

### **17.2 AUDIT OBSERVATIONS**

#### **17.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Koporesen for the year ended 31 December 2017 was issued on 24 July 2018. The report did not contain any qualification.

### **17.3 STATUS OF FINANCIAL STATEMENTS**

The financial statements of the Koporesen for the year ended 31 December 2018 had been submitted and arrangements were being made to commence the audit shortly.

## **17A. PAPUA NEW GUINEA COCONUT EXTENSION FUND**

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

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

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.

#### **17A.1.2 Objective of the Fund**

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

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

### **17A.2 AUDIT OBSERVATIONS**

#### **17A.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Extension Fund for the year ended 31 December 2017 was issued on 24 July 2018. The report did not contain any qualification.

### **17A.3 STATUS OF FINANCIAL STATEMENTS**

The financial statements of the Extension Fund for the year ended 31 December 2018 had been submitted and arrangements were being made to commence the audit shortly.



## **17B. PAPUA NEW GUINEA COCONUT RESEARCH FUND**

### **17B.1 INTRODUCTION**

#### **17B.1.1 Legislation and Objective of the Fund**

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

### **17B.2 AUDIT OBSERVATIONS**

#### **17B.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Research Fund for the year ended 31 December 2017 was issued on 24 July 2018. The report did not contain any qualification.

### **17B.3 STATUS OF FINANCIAL STATEMENTS**

The financial statements of the Research Fund for the year ended 31 December 2018 had been submitted and arrangements were being made to commence the audit shortly.

## **18. KUMUL CONSOLIDATED HOLDINGS (Formerly Independent Public Business Corporation)**

### **18.1 INTRODUCTION**

#### **18.1.1 Legislation**

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

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

A major impact of the amendments made was that the Corporation, the Trusts, the State Owned Enterprises or any other enterprises in which the Corporation, the Trusts or the State Owned Enterprise holds any interest shall not be subject to the *Public Finances (Management) Act*. The amended Act also excludes the Corporation from the application of the *Public Services (Management) Act 1995* and the *Salaries and Conditions Monitoring Committee Act 1988*. These amendments came into operation on 8 June 2007.

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

#### **18.1.2 Objectives of the Corporation**

The objectives of the Corporation are 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;
- 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 (NEC);
- enhance the financial position of the State or State Owned Enterprises; and
- enter into and perform financial and other arrangements that in the opinion of the Corporation have as their objective either:
  - the advancement of the financial interests of the State or State Owned Enterprises; or
  - the development of the State or any part thereof.

### 18.1.3 Functions of the Corporation

The main functions of the Corporation are to:

- administer the Trusts and monitor the performance of the assets of the Trusts in such manner as provided under this Act and shall perform such other functions as are required under this Act.
- without limiting the generality of *Section (1)* but subject to the provisions of this Act, the Corporation may:
  - undertake the function of holding and monitoring corporation for State owned assets and Majority State Owned Enterprises;
  - undertake the function of planning, coordinating and managing State assets, infrastructure and projects;
  - determine policies regarding:
    - the conduct of its affairs and the affairs of any of the Trusts; and
    - the administration, management and control of the Corporation and any of the Trusts;
  - borrow, raise or otherwise obtain financial accommodation in PNG;
  - advance money or otherwise make financial accommodation available to the State or State Owned Enterprises;
  - act as a central borrowing and capital raising authority for State Owned Enterprises;
  - act as agent for State Owned Enterprises in negotiating, entering into and performing financial arrangements;
  - provide a medium for the investment of funds of State Owned Enterprises;
  - manage or cause to be managed the Corporation’s financial rights and obligations; and
  - such other functions and duties as are prescribed by the Act or any other Act.

### 18.1.4 Trust of the Corporation

The Trust of the Corporation is *General Business Trust*. Comments in relation to the Trust are contained in paragraph 18A of this Report.

### 18.1.5 Subsidiaries of the Corporation

The subsidiaries of the Corporation are *Kumul Technology Development Corporation Limited (formerly Port Moresby Private Hospital Limited)* and *PNG Dams Limited*. Comments in relation to these subsidiaries are contained in paragraphs 18B and 18C of this Report.

## **18.2 AUDIT OBSERVATIONS**

### **18.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Corporation for the year ended 31 December 2016 was issued on 14 May 2019. The report did not contain any qualification.

## **18.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2017 was in progress.

The financial statements of the Corporation for the year ended 31 December 2018 had been submitted and arrangements were being made to commence the audit shortly.

## **18A. GENERAL BUSINESS TRUST (Trust under Kumul Consolidated Holdings)**

### **18A.1 INTRODUCTION**

#### **18A.1.1 Legislation**

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

#### **18A.1.2 Objectives of the Trust**

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

### **18A.2 AUDIT OBSERVATIONS**

#### **18A.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Trust's financial statements for the year ended 31 December 2016 was issued on 15 May 2019. The report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Measurement of Unquoted Investments**

My report for the prior year ended 31 December 2015 contained a qualified opinion due to my inability to determine the fair value of unquoted Non-Current Assets held in State Owned Entities (SOE's) reported at K3,846,815,394, investments in Lae-Port Development Project valued K268,950,312 and a further K749,676,303 as investments in Fairfax Harbour Properties.

The above investment balances have entered into as opening balances for the 2016 financial year without proven accuracy and completeness. In the absence of proper documentation and valuation, I was unable to quantify the probable misstatement carried by the opening balances.

Therefore, any adjustment found to be necessary on these opening balances might have a significant impact on the statement of comprehensive income (profit and loss) of the Trust for the year ended 31 December 2016, and statement of comprehensive income (profit and loss), statement of financial position and statement of cash flows of the Trust for the comparative year.

Consequently, I was unable to determine whether any adjustment might have been necessary to the statement of comprehensive income (profit and loss) of the Trust for the year ended 31 December 2016, and statement of comprehensive income (profit and loss), statement of financial position and statement of cash flows of the Trust for the comparative year (2015).

### **Investment in Properties**

*Note 11(a)* to the financial statements disclosed investment properties valued at K811,338,709, of which K46,628,175 was paid to Kurkuramb Estate Limited for purchase of Portion 406 Milinch Aroa Manu, Central Province for the relocation of Lancron Naval Base of the Defence Department, in exchange for the present Lancron Naval Base. The Trustee, Kumul Consolidated Holdings of PNG (KCH) entered into an agreement with Papua New Guinea's Department of Defence for the relocation site in exchange for issue of the State Lease title over the Lancron Naval Base. However, I was not provided with the title of State Lease for the Lancron Naval Base in favour of KCH. Also, litigation is currently ongoing between the parties to this matter.

Therefore, I was unable to obtain sufficient appropriate audit evidence to support the fair value of this investment property recorded at K46,628,175 as at 31 December 2016.

### **QUALIFIED OPINION**

In my opinion, except for the effects of matters described in the basis for qualified opinion paragraphs above:

- (a) the financial statements of General Business Trust for the year ended 31 December 2016:
  - (i) give a true and fair view of the financial position and cash flows for the year ended on that date; and
  - (ii) the financial statements have been presented in accordance with *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;
- (b) except for the matters described in the basis for qualified opinion paragraphs, proper accounting records have been kept by the Trust; and

- (c) I have obtained all the information and explanation as required except for the matters referred to in qualification paragraphs and under emphasis of matter.

### **EMPHASIS OF MATTER**

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

In 2016, Kumul Technology Development Corporation Limited, the Company (formerly known as Port Moresby Private Hospital Limited) entered into a share subscription agreement with Pacific International Hospital Limited (PIHL). The agreement was entered into for exchange of the land and building on which the PIHL currently operates under a lease agreement with KCH. The land and building has a fair market value of K81,261,000 now transferred to PIHL for an investment in shares worth K9,500,000 for a 12% interest in PIHL. As a result, the Company had recognised a loss of K71,761,000 in its Statement of Comprehensive Income for the year ended 31 December 2016.

I have sighted the KCH Board of Directors (BOD) minutes approval and Policy submission of Minister of Public Enterprises and State Investments and National Executive Council (NEC) decision authorizing and approving the investments of shares in PIHL in exchange for the land and building at Allotment 2, Section 105, off the Taurama Road, Korobosea, Port Moresby. However, I was not provided with any due diligence report to determine the economic and financial viability of the share subscription agreement before it was decided, approved and executed. The exercise was important to assess the value of PIHL shares as a business. Furthermore, financial statements and financial projections of PIHL were not provided for my review.

In performing their duties, Directors must exercise reasonable care, skill and due diligence that would be exercised by a reasonable and diligent person with general knowledge, skill and experience that may be reasonably expected of a person carrying out the functions as Directors in relation to the company.

However, in this case the Directors failed to exercise due care, skill and diligence and breached their duties, inter alia, may result in them being judged unfit to be of concern for management of a company and may lead to disqualification. As a result of the share subscription agreement, the decision of the Board, Minister and NEC had cost the State to the extent of K71.7 million.”

### **18A.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Trust for the years ended 31 December 2017 and 2018 were in progress.

## **18B. KUMUL TECHNOLOGY DEVELOPMENT CORPORATION LIMITED (Subsidiary of Kumul Consolidated Holdings)**

### **18B.1 INTRODUCTION**

#### **18B.1.1 Legislation**

This Company was initially registered under the *Companies Act* on 1 August 1994 with a name Negliw No. 81 Limited. On 30 September 1994, Negliw No. 81 Limited was acquired by the Motor Vehicles Insurance (PNG) Trust, now the Motor Vehicles Insurance Limited and on 20 March 1996 changed its name to Port Moresby Private Hospital Limited.

Port Moresby Private Hospital Limited was later transferred to the General Business Trust on 2 August 2002. Subsequently, on 20 April 2016 the Company changed its name from Port Moresby Private Hospital Limited to Kumul Technology Development Corporation Limited.

#### **18B.1.2 Objective of the Company**

The objective of Kumul Technology Development Corporation Limited is to construct, furnish and equip a building to operate as a hospital.

### **18B.2 AUDIT OBSERVATIONS**

#### **18B.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the year ended 31 December 2016 was issued on 16 May 2019. The report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Opening Balance**

My report on the financial statements of the Company for the year ended 31 December 2015 was a disclaimer of opinion in respect to fair value measurement of the investment properties. The Company was unable to provide sufficient appropriate audit evidence to support the fair value measurement recognized for its investment properties. Therefore, I was unable to quantify the effects of such material misstatements of the opening balances on the investment properties that might have a bearing on the balances reported in the 2016 financial statements. Further, I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances or comparatives presented.



Any adjustment that are found to be necessary on such opening balances would have a consequential effect on the profit and loss for the year ended 31 December 2016 and the comparative profit and loss account presented and, the respective statement of financial position and statement of cash flows.

### **QUALIFIED OPINION**

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

- (a) the financial statements of Kumul Technology Development Corporation Limited for the year ended 31 December 2016:
  - (i) give a true and fair view of the financial position and the results of its operation and cash flows for the year ended on that date; and
  - (ii) the financial statements have been presented in accordance with the *Companies Act 1997, International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.
- (b) proper accounting records have been kept by the Company; and
- (c) I have obtained all the information and explanation as required except for the matter referred in the qualification paragraph.

### **EMPHASIS OF MATTER**

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

#### **Significant Loss sustained by the Company**

During the year, the Company disposed all of the land and structures (Allotment 2, Section 105, Taurama Road, Korobosea, Port Moresby) which house the current Pacific International Hospital valued at K81,261,000 to Pacific International Hospital Limited. In exchange, the Company received 2,019,786 ordinary shares in Pacific International Hospital Limited (PIHL) with a value of K9,500,000 making the Company a 12% shareholder. As a result, the Company sustained a loss of K71,761,000. Sound and proper management practice dictates that acquisition or investments of this nature require appropriate economic and financial feasibility. As common practice, due diligence exercise including valuation of PIHL was required. However, the board and management failed to carry out such exercise thereby entering into a transaction without evaluating the economic and financial benefit and at great loss to the Company and its shareholder (the State).

### **Going Concern**

As of 31 December 2016, the Company's total current liabilities exceeds its total current assets by K4.9 million. This condition indicates existence of a material uncertainty on the Company's ability to continue as a going concern and therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. However, the management of the Company assessed that Company's ability to continue as going concern, is dependent on the ongoing financial support of General Business Trust."

### **18B.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 2017 was in progress.

The financial statements of the Company for the year ended 31 December 2018 had been submitted and arrangements were being made to commence the audit shortly.

## **18C. PNG DAMS LIMITED (Subsidiary of Kumul Consolidated Holdings)**

### **18C.1 INTRODUCTION**

#### **18C.1.1 Legislation**

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

#### **18C.1.2 Objective of the Company**

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

### **18C.2 AUDIT OBSERVATIONS**

#### **18C.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the year ended 31 December 2016 was issued on 15 May 2019. The report did not contain any qualification.

### **18C.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2017 and 2018 were in progress.

## **19. LEGAL TRAINING INSTITUTE**

### **19.1 INTRODUCTION**

#### **19.1.1 Legislation**

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

#### **19.1.2 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*.

### **19.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the audit reports of the Institute for the years ended 31 December 2014, 2015 and 2016 were under preparation.

The financial statements for the years ended 31 December 2017 and 2018 had not been submitted by the Institute for my inspection and audit.

## **20. MINERAL RESOURCES AUTHORITY**

### **20.1 INTRODUCTION**

#### **20.1.1 Legislation**

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

#### **20.1.2 Objectives of the Authority**

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

#### **20.1.3 Functions of the Authority**

The functions of the Authority are to:

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

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

## **20.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the years ended 31 December 2015 and 2016 were in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit.

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

### **21.1 INTRODUCTION**

#### **21.1.1 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.

#### **21.1.2 Objectives of the Authority**

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

#### **21.1.3 Functions of the Authority**

The functions of the Authority are to:

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

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

## 21.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 21.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2016 was issued on 18 September 2018. The report contained a Qualified Opinion.



## “BASIS FOR QUALIFIED OPINION

### Asset Revaluation Reserve

At 31 December 2016, asset revaluation reserve balance was K18,979,236 that resulted from a valuation exercise conducted in 2011. At year end, the Authority did not maintain a detailed register, reconciling the increment or decrement by individual asset revalued to the total balance of K18,979,236 as reported in the financial statements.

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

1. If a revaluation results in increase in value, it should be credited to other comprehensive income and accumulated in equity under the heading “revaluation surplus” unless it represents the reversal of a revaluation decrease of the same asset previously recognized as an expense, in which case it should be recognized in profit or loss;
2. A decrease arising as a result of a revaluation should be recognized as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset; and
3. When a revalued asset is disposed off, any revaluation surplus may be transferred directly to retained earnings, or it may be left in equity under the heading revaluation surplus. The transfer to retained earnings should not be made through profit or loss.

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

### Payment of Labour and Land Mobilisation Costs to Lands Investment Limited

Included in land and building amount of K36,328,507 was an amount of K2,924,899 related to costs incurred for the construction of the prefabricated houses. As qualified in the 2014 and 2015 audit, the Authority had paid additional amount of K1,048,998 above the approved contract value of K2,475,000 as approved by the Central Supplies and Tender Committee. Further, there were no specific clause in the contract in respect of the above payments of K1,048,998. Accordingly, I was unable to ascertain the basis on which the payment was made to Lands Investment Limited.

## Employee Provisions

The total employee provisions balance as at 31 December 2016 was K1,712,033 (current balance of K350,225 and non-current balance of K1,361,808).

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

## QUALIFIED OPINION

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements of the National Agriculture Quarantine and Inspection Authority for the year ended 31 December 2016:

- (a) give a true and fair view of the financial position and the results of its operations for the year then ended; and
- (b) with exception of instances of non-compliance described under Other Matters, the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act 1995*.”

### 21.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2016 was issued on the 18 September 2018. The report contained the following observation:

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

The National Agriculture Quarantine and Inspection Authority 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 preceeding, resulting in breaches of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995*.

## 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 Authority for the year ended 31 December 2017 was in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **22. NATIONAL AGRICULTURAL RESEARCH INSTITUTE**

### **22.1 INTRODUCTION**

#### **22.1.1 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 previously held by the Department of Agriculture and Livestock prior to the operationalisation of the Act were transferred to the Institute to become the assets at commencement.

#### **22.1.2 Objectives of the Institute**

The main objectives of the Institute are to:

- conduct and foster research into:
  - any branch of biological, physical and natural sciences related to agriculture;
  - cultural and socioeconomic aspects of the agricultural sector, especially of the smallholder agriculturalists; and
  - matters relating to rural development, relevant to PNG.

#### **22.1.3 Functions of the Institute**

The primary functions of the Institute are to:

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

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

## 22.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 22.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Institute for the year ended 31 December 2017 was issued on 10 September 2018. The report did not contain any qualification.

### 22.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2017 was issued on 10 September 2018. The report contained the following observations:

#### Accounting System/Software

My review of the Institute's accounts and records for the year ended 31 December 2017 revealed that the Institute had used the Quicken Accounting Package for past several years. I noted that the transactions from the Quicken cash ledgers were transferred manually to spreadsheets for reporting purposes as the Quicken was programmed to adopt cash basis of accounting. I further noted that the Accpac Accounting System that was purchased some years back was not fully utilized by the Institute. In my view, possibility of errors and mistakes could have been minimized and a better audit trail available should this new Accpac Accounting System was fully utilized. This matter was reported to Management in my previous reports and the Institute is expected to implement my recommendations.

Management concurred with my comments and responded that the new Sage Accpac Accounting System had been trialed progressively with the General Ledger, Fixed Assets and Cash Book Modules but delayed due to internet connectivity and accessibility at all NARI Centers.

### **Land Titles and Valuation**

My review of the Fixed Assets Register of the Institute and related records revealed that the Institute's Management for the first time had carried out a valuation exercise of all of the Institute's titled land portions located at various research centers throughout the country and disclosed the revalued amounts in its final accounts. Consequently, the value of its fixed assets was increased by K272,442,854. I noted that the Tambul portions were valued but this valuation was not included as the ownership titles were yet to be obtained from the Department of Lands and Physical Planning. As such, I recommended the Management to do a title search and obtain the title for the Tambul portions to confirm the ownership before incorporating these portions of land as Institute's asset.

### **22.3 STATUS OF FINANCIAL STATEMENTS**

The financial statements of the Institute for the year ended 31 December 2018 had been submitted and arrangements were being made to commence the audit shortly.

## **23. NATIONAL AIDS COUNCIL SECRETARIAT**

### **23.1 INTRODUCTION**

#### **23.1.1 Legislation**

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

#### **23.1.2 Objectives of the Council**

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

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

#### **23.1.3 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 and to:

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

## 23.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 23.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Council for the years ended 31 December 2015, 2016 and 2017 were issued on 4 October 2018, 29 January and 31 January 2019 respectively. The 2015 report contained a Qualified Opinion while the 2016 and 2017 reports did not contain any qualification.

### 23.2.2 Audit Observations Report to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Council for the years ended 31 December 2015, 2016 and 2017 were issued on 4 October 2018, 29 January 2019 and 31 January 2019 respectively. The reports contained similar observations, hence only the 2017 report is reproduced.

#### **Non-Compliance with the *Public Finance (Management) (Amendment) Act 2016***

The Secretariat had not submitted its financial statements for the year ended 31 December 2017 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) (Amendment) Act 2016*. As a result, the Secretariat had breached *Section 63(2), (3) and (5)* of the *Public Finance (Management) (Amendment) Act*.

I brought this issue to the attention of the management and the management responded and assured me that the financial statements would be prepared on a timely basis in future.

#### **Internal Control Environment**

I noted significant weaknesses in the Secretariat's overall internal control environment during the year 2017. The accounting system and internal control environment of the Secretariat continued to be severely deficient. The inefficient management control processes, inadequate financial reporting structure and inexperienced and unskilled staff had contributed to the undue delay in the preparation of the financial statements. As a result, I was unable to place reliance on the effectiveness of the Secretariat's internal control systems for the year under review. This is a recurring issue and the management need to seriously address these control weaknesses.

## Council Meeting Minutes

Section 12(1) of the *National AIDS Council Act 1997* stipulates that the Council shall meet as often as the business of the Council requires, and at such times and places as the Chairman directs, but in any event not less frequently than once in every quarter. I noted during my review that the Secretariat did not properly maintain the Council meeting minutes. Meeting minutes for 2017 were not signed and approved on a timely basis. As such, I was unable to place any reliance on the recorded proceedings.

The management responded to my finding as follows:

*“We were unable to provide the original signed copies due to the misplacement of the minutes by the previous management. Hence, the soft copies were printed and signed on 1 August 2018. We also take note that in future we will have the signed meeting minutes scanned and saved in our network saver for back up copy and safe keeping.”*

## Accounting System

My review of the accounting system revealed that the Secretariat did not have a proper accounting system in place to keep proper record of transactions and generate management and statutory reports on a timely basis. Instead, the accounts were maintained using both PGAS accounting system and the excel spread sheet during the year under review. Further, I noted that the final accounts were prepared from the information stored in the excel spreadsheet. In addition, I reminded the management about the implications of not having in place a proper accounting system and the Secretariat responded as follows:

*“We have also identified that issue and budgeted funds to purchase accounting software that is suitable for our organization. We also confirm that we will change the current PGAS accounting system to different accounting software.”*

## Fixed Assets – K1,486,924

My review and examination of fixed assets revealed serious weaknesses in the management of the assets owned and in the custody of the Secretariat. The following were noted:

- The Fixed Assets Register (FAR) was not properly maintained in 2017;
- The Secretariat had not conducted a regular stock-take on its fixed assets for a number of years including 2017;
- Assets were not tagged with asset numbers for verification and control purposes; and
- The Secretariat did not have an approved fixed assets policy in place.



Consequently, I was not able to place reliance on the controls surrounding the management and use of the fixed assets of the Secretariat and whether the fixed assets were properly safeguarded in 2017.

### **Staff Advances – K33,622**

During my review, I brought to the attention of the Secretariat the need to have proper operational policies put in place for use by officers in the implementation of its mandated responsibilities. One being the staff advances policy, which had not been compiled by the Secretariat to date. As a result, I was not able to place any reliance on the effectiveness of the internal controls surrounding the management of advances by the Secretariat.

Management responded to my comments as follows, *“As a way forward, we will develop a Staff Advance Policy.”*

### **Travel Acquittal and Travel Advance Register**

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

However, my review revealed that an amount of K47,966 related to travel and subsistence expenses were not been properly acquitted during the year under review. There was no proper Travel Acquittal Register maintained by the Secretariat as well. This issue was brought to the attention of the management in my prior years’ audit reports however; management is yet to take corrective measures.

Management noted my concerns and commented as follows:

*“NACS maintains Travel Acquittal Register; however the travelling officers are not cooperating in terms of acquittals. The control of Travel Acquittal will now be strengthened and those officers who do not acquit their first duty travel will not travel again until the previous travel is acquitted.”*

### **Leave Fares – K24,475**

I noted that a total of K24,475 was paid to employees as leave fares and repatriation expenses in 2017. However, I was unable to confirm and verify these payments as there were no dependent declaration forms and birth certificates attached with the payment vouchers or maintained in the staff personnel files. As a result, I was unable to confirm whether dependents claimed for leave fares were legitimate.

### **23.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Council for the year ended 31 December 2018 was submitted and arrangements were being made to commence the audit shortly.

## **24. NATIONAL BROADCASTING CORPORATION**

### **24.1 INTRODUCTION**

#### **24.1.1 Legislation**

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

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

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

#### **24.1.2 Functions of the Corporation**

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

The Corporation's other functions are to:

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

### **24.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the years ended 31 December 2015 and 2016 had been completed and the results were being evaluated.

The Corporation had submitted its financial statements for the year ended 31 December 2017 and arrangements were being made to commence the audit shortly.

The Corporation had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **25. NATIONAL CAPITAL DISTRICT COMMISSION**

### **25.1 INTRODUCTION**

#### **25.1.1 Legislation**

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

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

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

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

#### **25.1.2 Functions of the Commission**

The functions of the NCD Commission are to:

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

#### **25.1.3 Subsidiaries of the Commission**

The subsidiaries of National Capital District Commission are *National Capital District Botanical Enterprises Limited, Port Moresby City Development Enterprises Limited* and *Port Moresby Nature Park Limited*. Comments in relation to these subsidiaries are contained in paragraphs 25A, 25B and 25C of this Report.

## 25.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 25.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Commission's financial statements for the years ended 31 December 2014 and 2015 were issued on 1 August 2018 and 10 September 2018 respectively. The reports contained similar Disclaimer of Opinions, hence, only the 2015 report is reproduced.

#### “BASIS FOR DISCLAIMER OF OPINION

##### **Debtors – Staff Loan (K294,031)**

The Commission did not provide all necessary reconciliations, schedules and supporting documents for me to substantiate the outstanding balance. As a result, I was unable to form my opinion on the completeness, existence, accuracy and rights of the Commission over this balance.

##### **Investments**

*Note 14* to the financial statements disclosed unquoted investments in various organizations at a net book of K152,982. I could not determine the fair value of these investments at balance date as management did not take action to revalue its investments. Consequently, I was unable to confirm whether the balance reported on the financial statements was accurate.

##### **Revaluation of Lands and Buildings**

It was noted that lands and buildings reported in the financial statements as K89,002,006 had not been revalued over a number of years. The Commission did not carry out valuation of its lands and buildings over the past years and had relied on Valuer-General to conduct valuation on its lands and buildings portfolio. Accordingly, I was unable to determine whether the reported values of the Commission's properties were fairly stated in the financial statements as at 31 December 2015.

##### **Land and Garbage Rates Debtors**

As set out in *Note 8* to the financial statements, balance of land and garbage debtors net of provision at balance date was K64,461,104. The database from which reports of debtors were generated and posted to the general ledgers were inaccurate due to TARMIS system not able to separate tax exempt institutions from ratable institutions and individuals. Although, this error was corrected as part of provision for doubtful debts, there was no equitable basis for these estimates. In addition, data recorded in TARMIS had not been verified to physical land and properties. Hence, the land and garbage rates debtors are incomplete and inaccurate.

Due to limitation of scope, I was unable to obtain comfort over the completeness and accuracy of the debtors balance as well as the adequacy of the provision for doubtful debts as disclosed in the financial statements.

### **Land, Garbage and Sanitation Rates Income**

List of registered property owners used in calculating income for land, garbage and sanitation include both rated and non-rated institutions recorded in TARMIS. Various respective rates for land, garbage and sanitation were applied against this list to calculate the income relating to these revenue heads. The total expected income generated by the system was overstated as a result of the inclusion of the exempt or non-ratable land and buildings. Although this system oversight was adjusted as part of provision for doubtful debts, the basis used in deriving the application of 40% and 60% on doubtful provision estimates could not be substantiated. Therefore, I am unable to conclude that land, garbage and sanitation rates income are fairly stated in the financial statements.

### **Provision for Employee Benefits**

Employee provisions reported at K10,134,462 in *Note 12* to the financial statements comprised of provisions for annual and long service leaves. Annual and long service leave liability reports and all relevant supporting documents were not made available for my review. As a result, I was unable to determine the existence, completeness and accuracy of the balance reported as at 31 December 2015.

### **Payables/Creditors**

The year-end balance was disclosed at K51,778,772 in *Note 11* to the financial statements. I was not provided with relevant source documents for my verification. As a result, I was unable to perform further audit procedures to determine the accuracy of the balance reported as at 31 December 2015.

### **Related Party Disclosures**

Not all information required by *IAS 24* was included in *Note 13* to the financial statements. The details of transactions between the Commission and Motu Koitabu Council, Tabudubu Limited, National Capital Botanical Enterprises Limited, salaries and other employee benefits for key management, Commissioners' stipend, sitting allowances plus other benefits were not disclosed in the financial statements. This indicated that management had not complied with *IAS 24 Related Party Disclosures*.

## **Outstanding Legal Proceedings**

I observed that K983,135 was incurred for legal proceedings in the year under review. In addition, K15 million was reported in *Note 20* to the financial statements as amount related to pending legal proceedings. Neither the Commission nor its legal advisors had provided adequate information to me concerning the nature and possible outcome of these proceedings. As such, I was unable to determine whether the presentation of these claims in the financial statements as contingent liability was appropriate.

## **POSF Payable**

The outstanding POSF balance provided by the Commission for my review was K389,186. Documents provided in support of the balance revealed that the outstanding amount was subsequently paid in 2016. I noted this amount was not included in the payables in the financial statements as at 31 December 2015. Accordingly, liability had been understated.

## **BSP Loan 2 – Road Works K500 million**

Loan balance was reported as K46,000,000 in *Note 10(b)* to the financial statements. This amount was not supported by necessary reconciliations, schedules and other appropriate supporting documents such as loan statement and loan agreement for my verification. As a result, I could not determine the completeness, existence and accuracy of the outstanding loan balance as at 31 December 2015.

## **Road Works – Depreciation Expenses**

My review on depreciation charges revealed a difference of K4,571,333 between the Fixed Assets Register (FAR) and the financial statements. Total depreciation expenses for the year recorded in the FAR did not correspond to total expenses reported in *Note 6* to the financial statements. My examination on depreciation expenses revealed that assets recorded in the FAR was extracted from Accpacc Accounting System general ledger code: 3100-3105-2250-02 with account name: *Road Rehabilitation*. There was no valid explanation provided to ascertain the difference. As a result, I was unable to conclude that the depreciation expenses were fairly stated in the financial statements.



### **Fixed Assets Register (FAR)**

My review noted that the Fixed Assets Register had not been properly updated to account for costs of major road constructions. My inspection on the FAR revealed that costs for major road works or capital projects did not agree to total costs of road works taken up in the financial statements. I also observed that details of assets totaling K123,294,767 which made up of various assets recorded under property, plant and equipment have been properly maintained in the FAR. However, the Commission had not carried out any physical checks on these assets to confirm the existence and accuracy of the amount stated in the financial statements. As a result, I was unable to determine the completeness, existence and valuation of these assets stated by the Commission as at 31 December 2015.

### **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 to provide a basis for an audit opinion. Accordingly, I am unable to and do not express an opinion on the financial statements of the National Capital District Commission for the year ended 31 December 2015.”

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

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the years ended 31 December 2014 and 2015 were issued on 1 August 2018 and 10 September 2018 respectively. These reports contained similar observations, hence only the 2015 report is reproduced:

#### **Disaster Recovery Plan**

I noted that the general controls on information technology (IT) emphasized in my 2014 and prior years’ audits have not been addressed by the management. The IT Manager claimed that Information Technology Department had a disaster recovery plan that guarantees the continuity of activities and operations in the event that the Commission encounters catastrophic disasters such as fire, earthquake and cyclones. I was not given the opportunity to view the documented plan however, I was informed that data back-ups were done on daily, weekly and monthly basis. As advised, the disaster recovery plan had not been tested to ensure its feasibility. In the absence of a proper working disaster recovery plan, the risks that the business activities may be caused to discontinue by unforeseen natural disasters can increase. This can endanger continuity of the Commission’s operations.

## **Budget**

I noted weaknesses in costs control systems, as my in-depth test performed on expenses incurred for the year under review revealed that actual expenses exceeded the budgeted expenses by K28.834 million. The management did not take actions to reduce the expenses in order to adhere to the approved budgetary limits. I raised this issue in my prior audit but the management had not considered my recommendation. I also indicated to the management that overriding established controls exposes the Commission to significant risks including that of fraud in the course of procurement.

## **Taxes on Allowances of Key Management**

My review on taxation of allowances such as motor vehicle, housing, utility, telephone, entertainment, travel warrants, spouse allowances and other fringe benefits noted that these allowances were included in the payroll however, were treated as non-taxable incomes. The Commission did not provide me a copy of variation or exemption notice from Internal Revenue Commission in respect of the tax exemption granted on these allowances.

I noted that key Managers and Commissioners were entitled for certain allowances and fringe benefits. The Commission did not provide me with schedules and reconciliations of the allowances paid to or benefits received by the executives during the year under review. I pointed out to the management that Commission's failure in taxing these assessable allowances/benefits had contravened *Section 47(1)(d)* of the *Income Tax Act 1959*.

## **Payroll Functions**

I noted that all payroll system's reports were generated from Concept Payroll. Details of employees' remunerations were normally approved by the key management in Human Resource Division before details were sent to Concept. I observed that the payroll manager had not carried out his duties effectively as satisfactory records were not maintained to enable me to verify the payroll related expenses. I encountered difficulty in accessing these records from payroll division and was unable to obtain all necessary reconciliations, schedules and supporting documents on executives and commissioners' allowances. The human resource staff did not locate and provide me with this information for my verification. As such, I was unable to comment on the validity, completeness and accuracy of the allowances and payroll related expenses reported in the financial statements for the year ended. I also stated to the management that failure in reconciling the allowances may result in errors not detected in a timely manner which could lead to misstatement of payroll expenses.

### **Variation in Fortnight Base Salaries/Wages**

My review on four (4) pay-run reports for the year under review revealed that there were variations in base salaries/wages for some executive and non-executive staff. I was unable to confirm whether these variations were legitimate as I was not provided with documents in support of these variations or list of employees given pay-rise during the year. I indicated to the management that lack of proper documentations for the verification may provide opportunities for fraudulent activities.

### **Capital Projects Contracts - Road Works**

Road Works of the Commission represent a significant portion of its assets with a net book value of K197,499,698. Total additional costs incurred for road works in relation to constructions of new roads and road re-sealing was reported as K74,700,984. I further noted that payments to contractors were properly approved by authorized key personnel. However, due to absence of tender evaluation files and copy of tender procedures, I was unable to perform further audit procedures to determine the adequacy of project management, whether the project was delivered in accordance with the budget. In addition, I was unable to conclude whether there had been no apparent favoritism to the winning bidder of the capital project and that the tenders were in line with tendering procedures.

### **Internal Audit**

As stated in my 2014 audit report, the internal audit department was not operating as intended in 2015. The audit division was not functioning as intended although the scope and character had been documented by the Department of Finance in its *Finance Instructions 01/2005* dated February 2005. As a result, I could not coordinate my audit with that of the internal auditors or use them to provide direct assistance in the audit. I mentioned to the management that the internal audit team may not detect weaknesses in the existing processes to safeguard the probity and security of the financial system as a result of not operating as prescribed by the Finance Department's guidelines.

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

The *Section 63* of the *Public Finances (Management) Act 1995* requires that the audited financial statements of a public body must be furnished to the Minister before 30 June of the subsequent year but the audit of the 2015 statutory financial statements was delay due to various reasons. Consequently, the Commission had breached *Section 63(2)* and *63(4)* of the above mentioned Act.

## **Government Grant**

*Note 2* to the financial statements disclosed government grant received by the Commission totaled K2,371,200. I noted that total of K62,120,400 was allocated to the Commission as per the 2014 budget. Due to absence of appropriate information, I was unable to comment on the Commission's procedures and processes for recording government grants and also was not able to determine whether the remaining balances were received or still remained outstanding.

## **Fixed Assets Register (FAR)**

My examination of the Fixed Assets Register and its related records for major capital projects (road works) revealed that it was not properly maintained and updated on a regular basis. I noted that some expenses of capital nature incurred to maintain the roads were not assessed and capitalized.

## **Internal Controls**

In addition to the specific issues identified in the course of the audit, I noted that independent verification on employee payments and benefits is still lacking. Document handling, reconciliations and filling in payroll section was not satisfactory as most of the documents/information could not be located in the Human Resource Department. Copies of journal entries were not provided for me to verify the reasonableness of account classifications. In addition, issues noted in the budget occurred as a result of weaknesses in internal controls over costs. However, this matter is unlikely to be controlled by middle managers due to management override by most senior executives.

While I was not assigned to investigate fraud in detail, my examination suggested that the weaknesses encountered in internal controls could provide opportunity for fraudulent activities and had pointed out the matter to the management.

## **25.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2016 had been completed and the results were being evaluated.

The Commission had submitted its financial statements for the years ended 31 December 2017 and 2018 and arrangements were being made to commence the audits shortly.

## **25A. NATIONAL CAPITAL DISTRICT BOTANICAL ENTERPRISES LIMITED (Subsidiary of NCDC)**

### **25A.1 INTRODUCTION**

#### **25A.1.1 Legislation**

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

#### **25A.1.2 Objective of the Company**

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

#### **25A.1.2 Functions of the Company**

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

### **25A.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015, 2016, 2017 and 2018 for my inspection and audit, despite numerous reminders.

## **25B. PORT MORESBY CITY DEVELOPMENT ENTERPRISES LIMITED (Subsidiary of NCDC)**

### **25B.1 INTRODUCTION**

#### **25B.1.1 Legislation**

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

#### **25B.1.2 Functions of the Company**

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

### **25B.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015, 2016, 2017 and 2018 for my inspection and audit.

The extract from the Investment Promotion Authority (IPA) dated 21 June 2018 confirms that the Company was deregistered on 13 May 2011. As such, I will not report on this Company in my future Reports.

## **25C. PORT MORESBY NATURE PARK LIMITED (Subsidiary of NCDC)**

### **25C.1 INTRODUCTION**

#### **25C.1.1 Legislation**

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

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

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

#### **25C.1.2 The Objective of the Company**

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

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

### 25C.1.3 Functions of the Company

The functions of the Company include:

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

## 25C.2 AUDIT OBSERVATIONS

### 25C.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Company's financial statements for the years ended 31 December 2014 and 2015 were issued on 26 March 2019. The reports did not contain any qualification.

## 25C.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 had been completed and results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.



## **26. NATIONAL CULTURAL COMMISSION**

### **26.1 INTRODUCTION**

#### **26.1.1 Legislation**

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

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

#### **26.1.2 Functions of the Commission**

The main functions of the Commission are to:

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

### **26.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **26.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the year ended 31 December 2014 was issued on 26 February 2019. The report contained a Disclaimer of Opinion.

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

### **Internal Control Environment**

During my review of the internal control system of the Commission for the year ended 31 December 2014, I noted that the Commission’s overall internal control environment was very weak. The internal control processes and procedures were not implemented by the Commission. I also noted a lack of segregation of duties within the Management Services Division of the Commission. The staff employed by the Commission both permanent and casual lacked necessary skills and qualifications to perform the accounting and finance and other tasks allocated to them. I further noted that they were not familiar with the *Public Finances (Management) Act 1995*, *General Orders* and other *Financial Procedures and Instructions* to strengthen the internal control system of the Commission. As a result, I was unable to neither rely on the overall internal control system nor place any reliance on the Commission’s financial statements for the year ended 31 December 2014.

### **Limitation of Scope – Cash at Bank – K38,551**

My review on the bank reconciliations of the Commission revealed that the bank reconciliations were not properly and correctly prepared, checked and approved by senior finance officers of the Commission during the year under review. I was unable to verify the bank reconciliation statements of the Main Account operated by the Commission during the year. The Commission did not follow the correct procedures in performing the bank reconciliations of the main operating account. Further, the bank reconciliations and complete bank statements of National Film Institute were not provided for my review. Furthermore, I was not provided with the bank confirmation for National Film Institute, National Performing Arts Troupe and Institute of PNG Studies Accounts for the year ended 31 December 2014. Also, I was not provided with all the necessary information for me to carry out my audit procedures. As a result, I was unable to neither identify whether proper controls were implemented by the Commission in the bank reconciliation function nor verify and confirm the accuracy and completeness of the balance disclosed at the year end.

### **Limitation of Scope – Cost Centre Accounting Information**

During my review, I noted that the accounting information and the bank reconciliations with complete bank statements from the National Film Institute were not provided to me by the Commission for my audit examination and inspection. I was unable to verify the expenditures (acquittals of payments), internal revenue collection reports, fixed assets and other documentary evidences during my review.

As a result, I was not able to carry out my audit procedures to confirm whether proper accounting records have been maintained by the National Film Institute, the National Performing Arts Troupe and Institute of PNG studies.

### **Accounting Control System**

The Commission since its inception had been recording and maintaining its financial information on a manual cash book and spreadsheets. Receipts and Payments of the Commission were recorded manually using spreadsheets. I further noted that the cash book was not properly updated and maintained during the year under review. Due to inadequate manual controls, the financial statements produced from manual cashbook and ledgers cannot be relied upon. As a result, I was unable to obtain comfort over the internal control environment and the accuracy and completeness of the account balances stated in the financial statements.

### **Limitation of Scope – Fixed Assets – K5,805,841**

My review of the fixed assets and capital expenditures of the Commission for the year ended 31 December 2014 revealed that the Commission had not maintained a Fixed Asset Register for all non-current assets acquired over the years-to-date. I also noted that the Commission's acquisitions and disposals of assets were not properly accounted for. Further, there was no physical stock take under taken by the Commission to confirm the existence of assets. Since fixed assets of the Commission were susceptible to theft and misuse, the Commission should have appropriate control mechanism in place to safeguard these assets. As a result, I was unable to ascertain the completeness, existence and valuation of the fixed assets totaling K571,619 and the cumulative total of K5,234,222 as reported by way of notes in the financial statements at the year end.

### **Limitation of Scope – K8,953,383**

The Commission did not maintain proper records of payments totaled K8,953,383 during the period under review. My review of the expenditures during the year revealed that payments totaling K8,953,383 were missing or not placed on the payment voucher files for my verification. Consequently, I was unable to perform my audit procedures to determine the validity, completeness and accuracy of the payments totaled K8,953,383 as reported in the financial statements.

### **Contractual Agreements - K9,030,120**

During my review, I noted that the Commission engaged a number of Contractors and Service Providers to provide various services to the Commission. However, there were no valid or proper contract agreements drawn up to engage them during the year under review. As a result, I was unable to verify and substantiate payments totaled K9,030,120 paid to the Contractors and Service Providers at the year end.

### **Payments without Proper Supporting Documents – K7,141,028**

I noted during my review that payments totaled K7,141,028 had no proper supporting documents such as cheque copies and invoices attached to confirm and verify the payments. As a result, I was unable to verify and substantiate the accuracy, completeness and occurrences of the expenditures incurred.

### **Pay Cash Payments – K2,891,884**

My review on pay cash payments made to paymaster totaled K2,891,884 for various expenses for 5<sup>th</sup> Festival of Arts and Culture had no proper acquittal reports to confirm if funds had been properly utilized for their intended purposes. In the absence of proper acquittals, I was unable to confirm whether the funds were used for the festival activities.

### **DISCLAIMER OF OPINION**

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, I am unable to express an opinion on the financial statements of the Commission for the year ended 31 December 2014.”

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

My report to the Ministers under *Section 8(2) of the Audit Act* on the inspection and audit of the accounts and records of the Commission for the year ended 31 December 2014 was issued on 26 February 2019. The report contained the following observations:

#### **Accounting and Administration Procedural Manual**

During my review, I noted that the Commission had a draft Procedural Manual which was yet to be approved by the Board. I observed that the Commission’s staff were not adhering to the processes and procedures of the *Public Finance (Management) Act 1995, General Orders* and other *Financial Manuals and Instructions*. As a result, I noted significant internal control weaknesses within the Commission during the year under review.

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

*“The Commission had a draft copy of Procedural Finance and Accounting Manual that would be provided to the attention of the Commission’s deliberations, endorsement and would be implemented by the Commission and its Institutions”*

## **Non Maintenance of Travel Advances Acquittal Register**

The Commission had not maintained a Travel Advances Register for all duty travels and related expenses. As a result, I was unable to trace and authenticate travel advances and related expenses amounting to K545,596 during the year under review. Consequently, the Commission had breached the *Public Finances (Management) Act 1995* and the *Financial Management Manual Part 20 paragraphs 11.2 & 12.10* which states that cash advanced to officers on official duty travels must acquit travel advances within 14 and 7 days for international and domestic travels respectively on return from duty travels. In the absence of a Travel Advance Register, the Commission was unable to monitor the acquittals promptly.

## **Salaries, Allowances and Wages Controls**

During my review of personnel files both permanent and casual, I noted that personnel files were not properly maintained and updated. There were instances in which salary and wages tax declaration forms and birth certificates for dependents were not sighted in the personnel files. Casual wages totaled K38,085 had no cheque copies attached to indicate that payment had been made to that employee. Further, salary and wages tax deducted were not remitted to Internal Revenue Commission (IRC). Additionally, the Commission had not been contributing to superannuation funds despite employees being employed for more than three (3) months.

## **Internal Control Weaknesses**

Other internal controls breakdown and weaknesses noted during my audit were summarized as follows:

- i.** I noted the Commission's Board Meeting Minutes and the 5<sup>th</sup> Melanesian Festival of Arts and Culture Secretariat's Meeting Minutes were not signed by the Chairman to confirm the minutes as correct recording of the meetings.
- ii.** I observed that the Commission made payments totaled K4,537,443 without obtaining three (3) written quotations from reputable suppliers when making payments for expenditure exceeding K5,000. I further noted that some payments were executed on quotations and not on the basis of official suppliers invoice.
- iii.** During my examination of leave fares, I noted leave fares payments had no proper supporting documents such as three (3) quotes, cheque copies and dependent's birth certificates of the officers claiming leave fares.

I further noted officers were en-cashing their leave fares instead of paying them direct to the airline companies or the travel agents.

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

### **26.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and the examination of the financial statements of the Commission for the years ended 31 December 2015, 2016 and 2017 were completed and the management responses were being awaited to finalise the audit reports.

The Commission had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **27. NATIONAL ECONOMIC AND FISCAL COMMISSION**

### **27.1 INTRODUCTION**

#### **27.1.1 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*.

#### **27.1.2 Functions of the Commission**

The main functions of the Commission are to:

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

## 27.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 27.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the year ended 31 December 2017 was issued on 24 July 2018. The report did not contain any qualification.

### 27.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the year ended 31 December 2017 was issued on 24 July 2018. The report contained the following significant matters:

#### **Bank Reconciliations**

My review of the cash at bank revealed that the bank reconciliations were not prepared on a timely basis, checked and certified by senior competent officers of the Commission for the months of July through to December 2017. As a result, I could not ascertain whether proper controls were implemented in relation to bank reconciliation process. I recommended the Commission to comply with the *Financial Management Manual Part 3, Section 4.7* (Bank Reconciliations) that requires all Heads of Government Departments and Statutory Authorities to ensure that their Bank Accounts are reconciled on a monthly basis.

The management responded to my observation as follows:

*“We acknowledge the issue raised and corrective measures and periodic bank reconciliation will be adhered.”*

#### **Fixed Asset Register**

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



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

*“We acknowledged the issue and will take necessary actions to carry out complete stock take of all assets to be brought to the next commissioners meeting for the update of the Assets Register.”*

### **Staff Personnel Files**

My review of the personnel emoluments revealed that staff personal files were not properly maintained. I noted that records such as salaries and allowances variation advices, tax declaration forms and appointment letters were not on file for audit verification. The Commission also did not maintain control records such as salary history cards/leave history records (annual leave, long service leave and sick leave) to assist in the verification of annual leave and long service leave entitlements.

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

*“We acknowledge the issue and have since advertised and awaiting DPM to complete the process of appointing an experienced HR officer as a corrective measure.”*

### **Group Tax Liability**

During my review of the Salaries it was revealed that casual wages were paid out from the Commission’s Operational bank account. Based on the Commission’s fortnightly calculations, a total of K12,854 had been deducted for tax in 2017. This tax liability was withheld by the Commission but had not been remitted to the Internal Revenue Commission.

I recommended Management to comply with respective tax provisions and the Management responded as follows:

*“We have been complying but there were no mechanism/tax coding in place with the IRC to capture tax payment from NEFC. We acknowledge the issue and agree to review for proper controls and will comply to correct this weakness by applying for Tax Identification Number (TIN) for NEFC.”*

## **27.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2018 was in progress.

## **28. NATIONAL FISHERIES AUTHORITY**

### **28.1 INTRODUCTION**

#### **28.1.1 Legislation**

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

#### **28.1.2 Functions and Powers of the Authority**

The primary functions and powers of the Authority are to:

- manage the fisheries within the fisheries waters in accordance with this Act, taking into account the international obligations of PNG in relation to tuna and other highly migratory fish stocks;
- make recommendations to the Board on the granting of licences and implement any licensing scheme in accordance with this Act;
- liaise with other agencies and persons, including regional and international organisations and consultants, whether local or foreign, on matters concerning fisheries;
- operate research facilities aimed at the assessment of fish stocks and their commercial potential for marketing;
- subject to the *Pure Foods Act*, the *Commerce (Trade Descriptions) Act*, the *Customs Act*, the *Customs Tariff Act* and the *Exports (Control and Valuation) Act* control and regulate the storing, processing and export of fish and fish products;
- appraise, develop, implement and manage projects, including trial fishing projects;
- prepare and implement appropriate public investment programmes;
- collect data relevant to aquatic resources;
- act on behalf of the government in relation to any domestic or international agreement relating to fishing or related activities or other related matters to which the Independent State of PNG is or may become a party;
- make recommendations on policy regarding fishing and related activities;
- establish any procedures necessary for the implementation of this Act, including tender procedures; and
- implement any monitoring, control, and surveillance scheme, including co-operation, agreements or arrangements with other States or relevant international, regional or sub-regional organisations, in accordance with this Act.

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

## 28.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 28.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the years ended 31 December 2015 and 2016 were issued on 18 October 2018 and 24 May 2019 respectively. The 2015 report contained a qualified opinion while 2016 report a disclaimer of opinion, hence, only the 2016 report is reproduced.

#### “BASIS FOR DISCLAIMER OF OPINION

##### **Completeness of Revenue from Sale of Vessel Days**

*Note 4* to the financial statements provide an analysis of the revenues of the Authority including Sale of Vessel Days amounting to K427,856 (2015: K9.76 million). I was not provided with the appropriate documentary evidence and the justification for the significant decrease of K9.3 million from the previous year. Therefore, I was unable to satisfy myself as to the completeness of revenue from Sale of Vessel Days.

##### **Source Documents over Expenditures**

*Note 7, 8, 10* and *11* to the financial statements disclose the following items in the statement of profit and loss:

- Operational expenses amounting to K49.1 million (2015: K39.3 million)
- Administrative expenses amounting to K35.3 million (2015: K29 million)
- National Fisheries College (NFC) expenses amounting to K7.6 million (2015: K7.5 million)
- Public Investment Program amounting to K20.3 million (2015: K15.9 million)

Management was unable to provide documentary evidence to support expenses amounting to K8,767,138 from an audit sample size of K35,190,973 which equates to 24.9% of the value of items examined. An extrapolation of the results indicates that a further potential and judgmental difference of K15,175,390 existed in the total of the expenditures noted of K108,389,837. Therefore, due to the lack of sufficient evidence, I could not satisfy myself as to the occurrence of transactions, validity and appropriateness of K23,942,830 (K8,767,138 + K15,175,390) relating to the above expenditure amounts as recorded in the statement of profit and loss for the year ended 31 December 2016.

### **Validity of Public Investment Program (PIP) Expenses**

The Project Management Unit of the Authority was unable to provide documentary evidence of project documentation, monitoring and evaluation of the Public Investment Programs funded totaling K20.3 million in 2016. A significant amount of expenditures were in connection with insufficient audit trail to link these with the program activities and objectives. Accordingly, I could not satisfy myself as to the validity and relevance of expenditure to program activities.

### **Completeness and Validity of Trade Payables**

*Note 15* to the financial statements disclose Trade Payables amounting to K5.7 million (2015: K2.1 million). I was not provided with the appropriate reconciliations between supplier statements and the recorded amounts in the Accounts Payable Subsidiary Ledgers. Furthermore, I could not confirm the completeness and validity of Trade Payables by alternative audit procedures. Accordingly, I could not satisfy myself as to the completeness and validity of Trade Payables at year end.

### **Fixed Assets – Building and Property Valuation**

I noted from selected building valuation reports that 5 buildings totaling K2.5 million were last revalued in 2010 and 2011 which is between 5 and 6 years to the reporting date. *International Accounting Standards (IAS) 16* requires property plant and equipment carried under the revaluation model to be revalued by entire classes every 3 to 5 years. As a result, I am unable to satisfy myself whether land and buildings totaling K126 million were properly valued and disclosed.

### **Long Term Loan Transferred to Equity**

The statement of changes in equity includes a balance of Contributed Equity amounting to K19,139,858 (2015: K19,139,858).

The Independent State of Papua New Guinea (*the “State”*) negotiated a loan with the Asian Development Bank (ADB) and then signed a subsidiary loan agreement with the Authority to on-lend the funds. The loan was completely drawn down in 2003 and forgiven by the State, and accordingly was classified to equity by the Authority during the year ended 31 December 2006.

### **DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs above, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of National Fisheries Authority for the year ended 31 December 2016.”

## 28.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2015 and 2016 were issued on 24 May 2019. The reports contained similar observations, hence, only the 2016 report is reproduced:

### **Financial Statements**

The National Fisheries Authority has 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*.

### **Unsuitable Accounting Software - MYOB**

The National Fisheries Authority has been using the MYOB software as its accounting system since it was established. This accounting software is generally for small and medium sized enterprises with simple reporting requirements and is not suitable for larger entities such as the NFA which operates in multiple locations with a more sophisticated financial data and reporting procedures. Although a new software has been acquired and actions have been taken to gradually address this issue, the process is likely to be carried forward into the subsequent period. The fact that in the near future, NFA would have significantly increased its transactions and financial data imposes a peril consequence going forward.

I recommended a swift approach by the information system division to install and progress with the implementation of the system and MYOB be phased out as soon as possible.

The management responded as follow:

*“Going live in January 2018 as scheduled. The financial and accounting software is fully operational.”*

### **Concentration of Approval Function to Managing Director**

I noted again in my review of procurement procedures, the Managing Director (MD) and in his absence the Deputy Managing Director was required to approve all purchase requisitions between K1,000 to K100,000. Tests performed on requisitions identified instances where the MD had approved the purchases without any evidence of review on the requisitions by the originating unit managers. This existing process concentrated the approval function to the top executive whose role should be directed more towards corporate level control and monitoring activities rather than operational activities.

I recommended to management that an appropriate Delegation of Authority limit should be established and set in the operating policies and procedures to ensure that all requisitions are reviewed and approved by line managers and executive managers where applicable before escalating to the Managing Director only when required. I also recommended that a review of the delegation of Authority to raise the threshold of the Managing Director's from K1,000 to K50,000 to put responsibility on line managers to review and monitor expenditures below K50,000.

The management responded as follows:

*“The current practice now is that requisition is raised/issued by the Business Unit Manager, and then forwards to Finance and Accounts for review/checking. Any issue at this stage is returned to the business unit concerned. Once in order, Finance and Accounts then forward the requisition to the MD for final approval and gets back to Finance and Accounts to process by either raising a cheque or Purchase Order.”*

### **Lack of Internal Audit Functions**

I noted that an Internal Audit Division was included in the Authority's organizational structure but the unit had not been established as yet and the Internal Auditor position had remained vacant for a number of years. I recommended again that the Internal Audit function be given urgent priority by providing a financial budgetary allocation and physical office space and be implemented as soon as practicable. The management advised that the structure and budget has been approved by NFA Board and to implement in 2018 as scheduled.

### **Controls and Monitoring of Public Investment Program (PIP) Funds**

The Authority, as part of its operating functions, funds public investment projects (or programs) within PNG. In 2016 the total Public Investment Program expenses amounted to K20.3 million. My review of the project expenses revealed the following control weaknesses:

- Several projects had no monitoring and evaluation reports to verify if projects had been effectively implemented;
- The linkages between expenses and projects funded based on NFA Corporate plans and objectives were not documented;
- The Authority was unable to provide a list of projects which it had successfully implemented as well as projects that were still ongoing;
- Several projects were without sufficient supporting documentation to validate the related projects/program expenditure; and

- A significant amount of project expenses were travel allowances, hotel accommodation that lacked proper acquittals and justification as to their relevance to the projects.

Despite management response to my concern in prior years, the matter has not been fully resolved.

### **Fixed Assets – Physical Verification**

NFA has physical assets that are located around PNG. The Authority also has a policy for verification to be undertaken in November every year on the assets that are located outside of Port Moresby to confirm their physical location and working condition. However, I was not furnished any of the verification reports for 2016 when requested.

From inquiry with Management, the Authority had not performed a physical verification of its assets since 2014.

I recommended that a physical verification exercise be planned and undertaken on a regular basis to ensure the fixed assets of NFA were properly identified, registered and monitored as investment in assets generally involve large sums of public money.

### **Incorrect Expensing of Laptops**

The administration expense of the Authority included expensing of laptops worth K186,100 purchased for different business units of the Authority. These were not captured in any form of register and therefore the Authority lost visibility of and control over these items. From enquiry with management, the cost of purchasing each laptop was very low for each unit to be capitalized in the Fixed Assets Register. I recommended the management to create a Register to track all high value digital items and equipment even if these were to be expensed from a policy perspective.

The management responded as follows:

*“Implemented in 2017, Corporate Services responsible for maintaining and updating the Hard Cat Software which gives you the complete control of assets, property documentation and evidence.”*

### **Human Resources and Payroll – High Levels of Staff Advances or Loans**

The NFA provides a significant amount of staff advances to its employees as staff loans. An examination of this account reveals the following issues:

- No ceiling cap for staff advances disbursement;
- Advances were being disbursed even when there were still existing unpaid balances;

- There is a breach of the NFA Policies and Procedures which states that *In no circumstances should NFA provide cash advances to its employees*. There were still some instances that cash were given to employees as advances;
- A large amount of Travel advances had not been acquitted for by staff which at December 2016 totaled K317,798; and
- Advances shown as acquitted and posted in the general ledger could not be supported when requested. The General Standing Order requires that a staff submit travel acquittals within 21 days or else be liable to repay 60% of the total allowance. There appears no effort by the Authority to comply with this requirement.

I recommended the Executive Management to monitor these loans and ensure compliance with NFA policies, PNG Taxation Laws and the *Public Finance Management Act*. I also recommended that staff loans should be limited to a reasonable threshold with amounts above this threshold to be sourced from a financial institution.

The Management concurred with my recommendation and responded that recommendations were being implemented and the implementation is still ongoing.

### **28.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Authority had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit.



## **29. NATIONAL GAMING CONTROL BOARD**

### **29.1 INTRODUCTION**

#### **29.1.1 Legislation**

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

#### **29.1.2 Functions of the Board**

The principal functions of the Board are to:

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

#### **29.1.3 Fund of the Board**

*National Gaming Control Board Community Benefit Fund Trust* is the Fund of the Board. Comments in relation to the Fund are contained in paragraph 29A of this Report.

### **29.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **29.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Board's financial statements for the year ended 31 December 2015 was issued on 15 May 2019. The report contained a Qualified Opinion.

## “BASIS FOR QUALIFIED OPINION

### Fixed Assets

The National Gaming Control Board (NGCB) did not maintain a complete fixed assets register to record details of all fixed assets worth K34,437,361. Although, NGCB maintained a poker machine register which indicated 2,224 poker machines in existence, I noted that the Central Monitoring System (CMS) generated report indicated 1,760 machines as ‘on-line’/active. I was not furnished with explanations for discrepancy and/or variance. In addition, I could not confirm if any assessment for impairment/obsolescence of fixed assets particularly poker machines had been done. As a result, I was unable to confirm the existence, accuracy and valuation of fixed assets and associated depreciation recorded in the financial statement.

## QUALIFIED OPINION

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph above, the financial statements of the National Gaming Control Board for the year ended 31 December 2015:

- (a) give a true and fair view of the financial position and the results of its operations for the year then ended; and
- (b) the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act 1995*.”

### 29.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the year ended 31 December 2015 was issued on 15 May 2019. The report contained the following observations:

#### Fixed Assets

During my review, I noted that importation and supply of poker machines to NGCB during the year by the Agent, appears to be a breach of the *Gaming Control Act 2007* as only the Gaming machine operators have the license to import and supply poker machines under the current legislation.

#### Debtors

Other debtors included unbanked gaming revenue by two (2) site owners totaling K1.1 million, which appeared aged and potentially uncollectible. Due to lack of provision for bad and doubtful debts, I am of the view that this debt may not be realized in entirety.

I raised this issue with management and was advised that legal proceedings were in progress in 2015.

## **Revenue**

My review of the Board's revenue noted the following weaknesses:

- a) The Board did not enforce *Section 163(2)* of the *Gaming Control Act 2007* by disabling gaming sites in accordance with *Section 172(4)* of *Gaming Control Act 2007* where gaming machine permit holder and /or machine operators failed to bank the gross profit as required under *Section 63(1)* of *Gaming Control Act 2007*; and
- b) During the year the Board had earned K381,988 as Text lotto levy. In the absence of a proper monitoring and reporting system, I could not confirm the correctness and completeness of the amount received in the year as well as establish the reasons for decrease in revenue in comparison to prior years.

I brought these issues to the management and received the following responses:

- a) *“Banking dates may vary by organization however, all revenues due are ensured by Gaming Machine Operators to be collected before month end for payment of site commissions; and*
- b) *The Board has been monitoring the operations of Digicel's SMS gaming platforms since 2013 however our recent audit and compliance took note of the absence of a Standard Operating Procedure as such the Board will take note of this and is working on producing adequate reports and source documents for all receipts of monies from Digicel. Lottery monitoring system is currently being established.”*

## **Conflict of Interest**

The provisions of the *Gaming Control Act 2007* permit the Board as one of the four (4) Gaming Machine Operators in the country. I view this as a potential conflict of interest as one of the major player in the industry is also the regulator. This has the potential for non-compliance with the provisions of the *Gaming Control Act 2007* as well as perceived bias against other players in the industry.

## **Annual Reports**

In accordance with *Section 23 (1)* of the *Gaming Control Act 2007*, the Board shall by each year on or before 31 March furnish to the Minister a report on the progress and performance of the Board for the previous financial year then ended. Similarly, every six (6) months on the gaming activities conducted in the provinces. I noted that these requirements were not met by the Board in year 2015.

## **Surplus Income**

*Section 25 of the Gaming Control Act 2007 requires that, "In January and July each year, the Board shall review the cost of carrying out its functions against income received for the purpose in six months prior to the month of review, and after taking into account anticipated income and expenditure for the ensuing six months, into the Community Benefit Fund". I did not sight evidence to confirm compliance with this provision of the Act.*

## **Weaknesses in Procurement Process**

### **a) Payment out of Trust Account**

I noted a payment of K3.3 million out of Book Makers Trust Account to Consolidated Gaming Services Limited. However, I was unable to establish the reasons for this payment out of the trust account.

### **b) Advertising and Public Relations**

The Board engaged a company for advertising and community awareness programs on gaming through television, radio and print media from which a total of K757,398 was paid to the company. However, I was not provided with details of engagement process and selection criteria used in awarding of the contract. In addition, the company's director was also a Trustee of the National Gaming Control Board's Community Benefit Fund (CBF). There was no disclosure of interest recorded.

### **c) Consultancy Payments**

The Board awarded a contract of K65,000 to a company to review board fees and allowances in which the work was never completed. I was advised by the management that the matter is still under legal proceedings.

### **d) Legal Fees**

I noted payments totaling K1,774,475 as legal fees in 2015. These payments were not always supported by evidence of scope of work done. The claims also lacked draft or final copies of scope of work done based on instructions given to quantify the claims.

### **e) Board Expenses**

The Board paid a total of K124,125 for chairman's accommodation in Port Moresby. However, I was unable to confirm if proper approval was obtained as the payment was not as per the ministerial determination in respect of board fees and allowances.

As the result of the above observations, I am unable to place any reliance on the effectiveness of the internal controls surrounding the procurement process during the year.

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

The Board has not prepared and submitted its financial statements prior to 30 June for the year ending 31 December proceeding, to enable me to conduct audit and report the results before these deadline, resulting in breach of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995*.

### **29.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Board had not submitted its financial statements for the years ended 31 December 2016, 2017 and 2018 for my inspection and audit.

## **29A. NATIONAL GAMING CONTROL BOARD COMMUNITY BENEFIT FUND TRUST (Subsidiary of National Gaming Control Board)**

### **29A.1 INTRODUCTION**

#### **29A.1.1 Legislation**

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

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

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

The CBF started its operations in 2008.

#### **29A.1.2 Objectives of the Fund**

The objectives of the Fund Trust are to:

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

#### **29A.1.3 Function of the Fund**

The principal function of the Fund is to provide for and apply the income and capital of the fund towards generally charitable purposes, including but not exclusive of the following areas:

- provision and improvement of social welfare;
- development of sports and improvement of recreational facilities;
- improvement of education and learning tools (not including school fees);
- assistance to churches and religious groups;
- provision of medical assistance;
- assistance to education, health and law and order projects; and
- undertake research into problems on gambling and promote community awareness and education on negative aspects of gambling.

## **29A.2 AUDIT OBSERVATIONS**

### **29A.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Fund's financial statements for the year ended 31 December 2015 was issued on 15 May 2019. The report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Donations**

My review of the donations made during the year revealed the following:

- donations totalled K53,809,045 had been paid out and committed for various purposes during the year. However, I noted that K33.3 million worth of donations/financial assistance were not supported with any form of acquittal/reports;
- the Fund had recorded K10.4 million in acquittals as received. However, supporting documents were not provided for my verification and confirmation;
- there were no follow-ups on prior period outstanding acquittals worth K64.8 million; and
- the Board of Trustees did not have a tracking, monitoring and compliance system to do physical random checks to ensure donations were utilised for their intended purposes.

As a result, I was unable to confirm the validity of the respective payments and whether they were made for the intended purposes. In addition, I was unable to place any reliance on the effectiveness of the internal controls surrounding the management and acquittal of donations.

#### **QUALIFIED OPINION**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph above, the financial statements of the Fund for the year ended 31 December 2015:

- (a) give a true and fair view of the financial position and the results of its operations for the year then ended; and
- (b) the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act 1995*.”

### **29A.2.2 Audit Observations Reported to the Ministers**

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Fund for the year ended 31 December 2015 was issued on 15 May 2019. The report contained the following observations:

#### **Trust**

My review of the Fund revealed that there was no gazettal of the Trust Deed. As highlighted in past audits, the Trust Deed also did not make any reference to *Public Finances (Management) Act 1995*, on who can apply for assistance, the acquittal needs, investments and accountability.

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

#### **Donations**

My review of the donations made during the year revealed several weaknesses as noted below:

- as highlighted in my prior years’ reports, a number of payments were made based on request and memos from the office of the Prime Minister, however, no proper confirmation and approvals were sighted;
- certain payments made do not appear to meet the objectives and eligibility of trust donations;
- donations were initially paid by the National Gaming Control Board and reimbursed by the Fund. This showed that donations made were only retrospectively approved by the Fund’s Board of Trustees without proper screening of all requests;
- donations made to government departments, districts and provincial treasuries appeared to meet respective budgetary shortfalls and/or unbudgeted public investment program;
- financial assistance given to entities which have a direct and or indirect relationship with the Fund have not been disclosed as related party transactions in the financial statements;
- the Board of Trustees did not have a tracking, monitoring and compliance system to do physical random spot checks to ensure donations were utilized for intended purposes and benefited communities;



- there were cases of funding made without proper CBF applications; and
- there were also instances of donations made without being recorded in the Register.

As a result of the above observations, I was unable to conclude on the effectiveness of the internal controls surrounding the administration of the donations out of the CBF and whether value for money was achieved.

### **Board Expenses**

As reported in my prior year reports, CBF Trustees were paid their entitlements amounted to K471,374 based on what was prescribed in the CBF Trust Deed. However, I noted that if the trustees were paid based on Ministerial Determination of fees and allowances, it would have amounted to K231,000. In the absence of proper approval of higher rates, I was unable to confirm the correctness of the board fees and entitlements paid during the year.

### **29A.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Fund had not submitted its financial statements for the years ended 31 December 2016, 2017 and 2018 for my inspection and audit, despite my reminders.

## **30. NATIONAL HOUSING CORPORATION**

### **30.1 INTRODUCTION**

#### **30.1.1 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.

#### **30.1.2 Functions of the Corporation**

The principal functions of the Corporation are to:

- improve housing conditions;
- provide adequate and suitable housing or letting to eligible persons;
- sell houses to eligible persons;
- make advances to eligible persons and approved applicants to enable them to become the owners of houses occupied by them;
- develop residential land by way of providing adequate services for human settlements;
- carry out and promote research or investigations into matters connected with urban development and human settlements; and
- maintain dwellings and associated buildings vested in the Corporation.

#### **30.1.3 Subsidiary of the Corporation**

The National Housing Corporation has a subsidiary Company, *National Housing Estate Limited*. Comments in relation to the National Housing Estate Limited are contained in paragraph 30A of this Report.

### **30.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Corporation for the years ended 31 December 2015, 2016 and 2017 had been submitted and arrangements were being made to commence the audit shortly.

The Corporation had not submitted the financial statements for the year ended 31 December 2018 for my inspection and audit.

## **30A. NATIONAL HOUSING ESTATE LIMITED (A Subsidiary of National Housing Corporation)**

### **30A.1 INTRODUCTION**

#### **30A.1.1 Legislation**

National Housing Estate Limited (NHEL) was incorporated on 28 September 2007 under the *Companies Act*. The incorporation of the company was based on the *National Executive Council (NEC) Decision No. 304/2006* in accordance with *Section 27* of the *National Housing Corporation Act 1990*.

Subsequently, the *NEC Decision No. 70/2007* endorsed its establishment as a Special Purpose Company of the National Housing Corporation.

The Company commenced its normal operations from 1 January 2010.

#### **30A.1.2 Objective of the Company**

The principal purpose of the company was to manage certain National Housing Corporation owned properties for commercial development in Port Moresby, to generate income for the National Housing Corporation to deliver its mandate.

### **30A.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Company had submitted its financial statements for the years ended 31 December 2010, 2011, 2012, 2013 and 2014, and arrangements were being made to commence the audits shortly.

The Company had not submitted its financial statements for the years ended 31 December 2015, 2016, 2017 and 2018 for my inspection and audit.

## **31. NATIONAL INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY (NICTA)**

### **31.1 INTRODUCTION**

#### **31.1.1 Legislation and Objective of the Authority**

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

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

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

#### **31.1.2 Functions of the Authority**

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

### **31.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **31.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2015 was issued on 15 May 2019. The report contained a Disclaimer of Opinion.

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

### **Opening Balances**

The audit opinion on the financial statements of the Authority for the year ended 31 December 2014 was disclaimed. There were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance as to the correctness of the opening balances at 1 January 2015. Since opening balances enter into the determination of the results and cash flows for the year ended 31 December 2015, I was unable to determine whether adjustments might have been necessary in respect of the result and cash flows reported for the year.

### **Unrealized Foreign Exchange Gain**

The statement of comprehensive income for the year ended 31 December 2015 includes a foreign exchange gain of K2,186,409. I have not been provided with sufficient and appropriate evidence to support the calculation of this foreign exchange gain and the basis on which it has been included in the statement of comprehensive income.

### **Non-restatement of Prior Year Adjustment to Revenue**

The statement of comprehensive income for the year ended 31 December 2015 includes revenue of K39,859,973. Included within this amount is revenue of K2,644,234 relating to services performed in previous financial years which had not previously been recorded as revenue. The correction of this error should have been recorded through restatement of the comparative amounts in the financial statements and not through inclusion in revenue for the year ended 31 December 2015. As a result, revenue for the year ended 31 December 2015 was over-stated by K2,644,234.

### **Trade Debtors**

The statement of financial position at 31 December 2015 includes trade and other receivables of K22,723,739. Included in this amount is K5,563,581 due from two customers which remains outstanding at the date of this audit report. I have not been provided with sufficient appropriate audit evidence to demonstrate the recoverability of this balance and as a result I was unable to determine the allowance for doubtful debts, if any, that should be recorded against this balance.

### **Land and Building Titles**

The statement of financial position at 31 December 2015 includes land and buildings with a net book value of K48,644,626. Included in this balance are certain properties with an aggregate net book value of K18,987,945 for which I have not been provided with sufficient appropriate audit evidence supporting the Authority's title to the properties.

In addition, I have been informed by management that there is an ongoing dispute over the legal ownership of further properties with an aggregate carrying value of K6,556,682 at 31 December 2015. As a result of these matters, I was unable to conclude on the appropriateness of the recorded value of land and buildings in the statement of financial position.

### **Investment Property**

The statement of comprehensive income for 2015 includes income derived from the rental of certain properties included within land and buildings in the statement of financial position. To the extent that the properties are held to earn rental income or derive capital gains they are likely to meet the definition of investment property. I have not been provided with sufficient appropriate audit evidence to support the basis on which properties earning rental income have remained classified as land and buildings in the financial statements.

### **Other Matters**

The values attributed to the components of the financial statements referred to above are significant to the financial statements and are of fundamental importance to the preparation of the financial statements. As a result of the matters above, I have been unable to determine whether any adjustments might have been found necessary to the statement of financial position at 31 December 2015, or the statement of comprehensive income, statement of changes in equity or the statement of cash flows for the year then ended.

### **DISCLAIMER OF OPINION**

In my opinion, because of the existence of the limitation of scope on my work as described in the Basis for Disclaimer of Opinion paragraphs above, and the effects of such adjustments, if any, that might have been determined to be necessary had the limitations not existed, I am unable to and do not express an opinion on the financial statements of the Authority for the year ended 31 December 2015.”

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

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2015 was issued on 15 May 2019. The report contained the following observations:

##### **Ineffective Credit Collection and No Policy on Bad Debt Provisioning**

I noted that there were several long outstanding accounts receivable invoices reported in the Authority’s books without evidence of subsequent collection. In addition, there was no policy on bad debt provisions.

As a result, long outstanding accounts receivable balances suggest inadequate credit control and monitoring that expose the Authority to the risk of non-recoverability of invoices. I recommended the management to revisit its policy on customer credit monitoring and to establish a policy on bad debt provisioning to properly monitor the invoices and provide for bad debts. The management noted my comments and is working on implementing my recommendations.

### **Lack of Coordination between Accounting and Licensing Divisions**

The Authority lacked coordination between the accounts receivable team and the licensing team in ensuring that all licenses are completely and appropriately billed in the correct period. There were several invoices raised during the year in relation to Spectrum fees for PNG Air Services Limited for the prior years 2011 to 2014. I recommended management to enhance the coordination between the accounts receivable and licensing teams to ensure more effective billing process. I further recommended management to maintain a checklist of all licenses and other NICTA fees due for billing on a monthly basis and periodically monitor them to ensure services are completely billed in the correct period.

### **Reconciliation of General Ledger Account Balances**

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

### **Other Weaknesses**

Other weaknesses noted are as follows:

- The Authority failed to formally reconcile its GST balance with the IRC balance to properly reflect the correct amount in its records;
- Lack of segregation of duties in the payroll process;
- No supporting documents were provided to verify the procurement process of the acquisition of Badihagwa Land; and
- No supporting schedules/reports in relation to fringe benefits and allowances for directors, board members and senior management were provided to me for my verification.

### **31.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the years ended 31 December 2016 and 2017 were in progress.

The Authority had submitted its financial statements for the year ended 31 December 2018 and arrangements were being made to commence the audit shortly.



## **32. NATIONAL MARITIME SAFETY AUTHORITY**

### **32.1 INTRODUCTION**

#### **32.1.1 Legislation**

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

#### **32.1.2 Functions of the Authority**

The functions of the Authority are to:

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

## 32.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 32.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2017 was issued on 24 July 2018. The report did not contain any qualification.

### 32.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2017 was issued on 24 July 2018. The report contained the following matters:

#### **Trade Debtors**

My review of the Authority's trade debtors balance of K15,308,553 at 31 December 2017 revealed that a large number of debtors amounting to K3,681,623 were outstanding for more than 90 days. I further noted that most of these long outstanding debtors may not be collectable.

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

*"We developed a debt management policy to address the debts that are falling behind the due dates for collection and allow provision for doubt-full debts. One of the outcomes of the policy is to enforce the relevant legislation on detaining vessel for non-payment of levies. The enforcement unit will be created within the legal department to enforce the law. Once the unit is in place and fully functional, it will force many agents/owners/masters to pay the levies on time. A warning letter to major clients informing them of the Authority's intention will be disseminated to the industry. Also provisions for doubtful debts have been increased in line with the debt management policy."*

#### **Fixed Assets**

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

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

*“The Management has instituted the process to address the management of the Authority’s assets. A fixed management policy and procedures had been formulated and adopted by the Authority. An audit of the current asset listing will be executed to establish the viability of the assets.*

*We are very much aware of old assets that are still on the list and are fully depreciated and obsolete. We anticipate a clean-up in 2018 and appropriate assets listing for deletion in the Asset Register will be tabled for Board’s approval.”*

### **Staff Salary History Cards**

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

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

Management responded to my concern as follows:

*“Management acknowledged that and will immediately address this issue.”*

### **32.3 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 2018 for my inspection and audit.

## **33. NATIONAL MUSEUM AND ART GALLERY**

### **33.1 INTRODUCTION**

#### **33.1.1 Legislation**

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

#### **33.1.2 Functions of the Museum**

The main functions of the Museum are to:

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

### **33.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **33.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Museum for the years ended 31 December 2015, 2016, 2017 and 2018 were issued on 31 July 2018, 21 January, 26 February and 28 June 2019 respectively. The 2015, 2016 and 2017 reports contained similar disclaimer of opinions except 2018 report which contained a qualified opinion and is reproduced.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Scope Limitation – Lack of Source documents**

The Museum is required to keep proper accounts and records of its transactions and affairs as stipulated under *Section 62(1)* of the *Public Finance (Management) (Amendment) Act 2016*. However, my examination of the Museum’s accounts and records revealed that the Museum had not properly maintained its accounting and financial records. As a result, I was unable to verify payments totaling K674,830 as payment vouchers were not provided for my verification. Lack of source documents and inappropriate record keeping had placed a limitation on the scope of my audit.

## QUALIFIED OPINION

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

- a) are based on proper accounts and records; and
- b) are in agreement with those accounts and records, and show fairly the state of affairs of the Museum for the year ended 31 December 2018 and the results of its financial operations and cash flows for the year then ended.”

### 33.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the financial statements of the Museum for the years ended 31 December 2015, 2016, 2017 and 2018 were issued on 31 July 2018, 21 January, 26 February and 28 June 2019 respectively. The reports contained similar significant matters, hence, only 2018 report is reproduced:

#### Procurement Process

My examination of procurement process and payment vouchers revealed that the Museum did not use the Finance Forms 3 and 4 (FF3 & FF4) in the procurement of goods and services; instead, the Museum only used the general expenses form. As a result, the Museum was in breach of the procurement processes stipulated in the *Public Finance (Management) (Amendment) Act 2016* as well as its own financial manual. I recommended the management to properly observe the procurement processes before payment was actually made.

Management acknowledged my observation and opted to train all staff who are involved with procurement of goods and services to address this issue.

#### Unsigned Contract Agreements

My review of Contract payments revealed that amounts totaling K243,501 were made to service providers without valid contractual agreements. The agreements were not signed and validated. Without valid contracts, I was unable to validate and comment on the genuineness of the payments made to the contractors or service providers.

Management acknowledged my observation and agreed to improve on its internal procurement processes system and train its staff on procurement processes.

### **No Contract/Service Agreement – K1,833,359**

During my review and inspection of the expenditure account, I noted that there were no contracts/service agreements between the service providers and the Museum for the year under review. As a result, I was unable to confirm the validity and correctness of the payments totaling K1,833,359 made to various service providers. I was also unable to substantiate the basis for which payments were made and to confirm whether due processes were followed in awarding the contracts to the contractors being engaged. *Financial Instruction 2/2013* requires head of agencies (CEO) to ensure minor contract agreements were in place and executed properly for contracts or purchases valued between K50,000–K500,000.

The Management of the Museum responded to my query as follows:

*“The National Museum and Art Gallery acknowledges the issue. Three (3) of these Suppliers are for very old contracts or service agreements (2016) and one (1) is from Goroka. Definition of suppliers that require contracts or service agreements will be included in the NMAG Finance Manual.”*

### **Payment made to Minister’s First Secretary**

My review of the expenditures revealed a payment of K10,000 (cheque number 546) was made to the First Secretary of the Minister for Tourism, Arts and Culture instead of the Minister’s Office. As a result, I was unable to verify whether the money was used for its intended purpose and for the benefit of the Minister’s Office.

I drew this matter to the Management of the Museum and they responded as follows:

*“The Management acknowledged your observation and assured you that all future payments to be made to the Ministerial Department and not individuals.”*

### **Lack of Three (3) Written Quotations – K87,025**

My examination on expenses revealed several payments totaling K87,025 were paid without obtaining three (3) written quotations from three (3) different suppliers. It is a requirement under division 3, paragraph 14 of the Financial Management Manual that, “three (3) written quotes must be obtained for purchases valued between K5,000 and under K100,000.” The museum did not comply with the *Public Finance (Management) (Amendment) Act 2016* which governs the management and use of public funds.

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

*“The Management concurred and acknowledged audit finding and will provide additional training to its staff to fully comply with the PFMA requirement.”*

### **Fixed Assets Additions**

My review of the assets additions revealed that payments totaling K33,834 were made based on quotations and not on actual invoices. As such, I was not able to confirm the validity of these transactions as payments on quotations may be altered. Consequently, I could not substantiate whether actual payments were made to those suppliers; and whether these payments were the exact amounts charged by the suppliers.

I recommended the Museum to make payments based on invoices and not on quotations.

The Management concurred with my finding and made an assurance that all payments will now be made based on invoices and not quotes.

### **Salary and Wages Tax**

During my review of the Salary, Wages and Allowances expenses, I noted that the salary and wages tax component for the offline/manual (casual) payroll had not been remitted to the Internal Revenue Commission (IRC) for the year under review. The Museum was in breach of the *Income Tax Act, 1959* under *Section 299G (3)* where it states that group tax should be paid to IRC within seven days of the following month. As a result of non-remittance of group tax to IRC, the Museum may be subject to penalties set out in *Section 299H* of the *Income Tax Act, 1959*. I recommended management of the Museum to remit its monthly group tax to the IRC within seven days of the following month to avoid penalties imposed by the IRC.

The Museum responded to my observation as follows:

*“National Museum & Art Gallery acknowledges the issue. IRC TIN registration received on 19 October 2018 and HR department is preparing reconciliation so that payment can be made. The future payments of group tax to be made seven days after month end.”*

### **Non Compliance to Superannuation Act**

The *Superannuation (General Provisions) (Amended) Act 2002, Section 78*, stipulates that the employee contributions is to be paid within fourteen days of the date of deduction and the employer contributions be paid within fourteen days of each month. However, during my review, I noted that both the employee and employer contributions, particularly the offline/manual (casual) salary and wages earners had not been remitted to the Super Fund (Nambawan Super Limited) for the year under review. As a result, the Museum was in breach of the above mentioned Act. I recommended the Museum to pay the superannuation contributions on a timely manner as specified above.

I drew this issue to the Management of the Museum and they responded as follows:

*“National Museum & Art Gallery acknowledges the issue. HR department is preparing reconciliation so that payment can be made. In future, payments of Superannuation will be made fourteen days after deduction.”*

### **Personnel Files**

My review of the Museum’s Personnel Files revealed that the personnel files were not properly maintained and updated on a regular basis. The salaries/wages declaration forms and leave records of employees were not properly maintained. As a result, I was not able to verify the rates on which some of the contract and casual employees were paid their salaries and wages since their personnel files were not provided for my review.

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

*“National Museum & Art Gallery acknowledges issue. The HR department have commenced project to review all personnel files and ensure all information included.”*

### **Leave Fares – K164,355**

My review of the leave fares account revealed that some officers have claimed airfares for their dependents without proper supporting documents (birth certificates). I also noted that a payment of K19,908.40 (cheque number 1313092) was missing as supporting documents were not provided. In another instance, a payment of K13,174 (cheque number 1313427) was paid to an officer whose original destination was Wewak but opted to travel to Goroka and return and then travelled again to his original destination in Wewak. I was unable to comment whether the Museum had complied with the *General Orders (GO 14.41)* in administering of leave fares during the year.

The Management responded to my queries as follows:

*“The National Museum and Art Gallery Management acknowledged the issues. A policy on leave fares and required documentation is included in the NMAG Finance Manual. HR is trying to obtain NID cards for all staff and family to resolve this issue.”*

### **No Proper Travel Acquittals – K397,169**

Despite my prior years’ recommendation, the Museum had not maintained a Travel Acquittal Register file for all the duty travel and related expenses incurred by the staff during the year under review for both international and domestic travels. In addition, there were no ticket butts and receipts from hotel accommodation attached to the payment vouchers.



Museum had not complied with the *Financial Instructions Part 20 paragraph 12.2, 12.10 & 11.2* which state that a Financial Delegate/Authorizing officer shall maintain a register of advance for officers on duty travel and officers who take the trip must acquit within 7 days for domestic travel and 14 days for international travel.

Management acknowledged my observation and stated that, “*A policy regarding travel acquittals was included in the NMAG Finance Manual. Management to ensure compliance with strict penalties applied to staff members who do not comply.*”

## **34. NATIONAL RESEARCH INSTITUTE**

### **34.1 INTRODUCTION**

#### **34.1.1 Legislation**

The National Research Institute (NRI) was established under the *Institute of Applied Social and Economic Research Act (Chapter 165)*. The name of the Institute was changed from 'PNG Institute of Applied Social and Economic Research' to 'National Research Institute' following the approval of the NEC through its *Decision No. 42/90* of 7 March 1990.

The *Institute of Applied Social and Economic Research (Amendment) Act 1987* came into operation on 1 January 1988, and on this date, the promotion and cultural functions of the former Institute of PNG Studies; and functions to do with Educational Research for National and Provincial Departments of Education carried out by the former Educational Research Unit (UPNG), formed part of the National Research Institute.

#### **34.1.2 Functions of the Institute**

The functions of the Institute include:

- the promotion of research into PNG society and economy;
- the undertaking of research into social, political and economic problems of PNG in order to formulate practical solutions to such problems;
- where practicable, the provision, by agreement with the body concerned, of consultancy services to the Government and to Government institutions;
- the promotion of the functions and objects of the Institute of PNG Studies; and
- research into all aspects of education for National and Provincial Departments of Education.

### **34.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Institute for the year ended 31 December 2017 had been completed and awaiting the amended signed financial statements from the Institute to issue the reports.

The Institute had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **35. NATIONAL ROADS AUTHORITY**

### **35.1 INTRODUCTION**

#### **35.1.1 Legislation**

The National Roads Authority was established by the *National Roads Authority Act 2003* and came into operation in 2004.

#### **35.1.2 Objectives of the Authority**

The objectives of the Authority are to:

- raise funds for the maintenance of public roads;
- ensure the efficient preparation of effective annual road maintenance programmes; and
- ensure that all routine, specific and emergency maintenance of roads and road rehabilitation and reconstruction funded by the Authority are executed in a transparent, effective and efficient manner, in order to optimise the contribution of road assets to the economic and social development of Papua New Guinea.

#### **35.1.3 Functions of the Authority**

The functions of the Authority are to:

- establish and operate a Road Fund from road user charges, budget and other sources;
- establish resources to enable the Authority to perform its functions;
- maintain and manage updated data on asset conditions using the Road Asset Management System, Bridge Inventory and Bridge Maintenance and other approved systems;
- formulate and determine prioritised annual road maintenance plans and programmes using the Road Asset Maintenance System, Bridge Inventory and Bridge Maintenance and other approved systems to be supported by the road sector cost recovery revenues;
- establish annual road maintenance funding requirements in accordance with the future annual road maintenance plans;
- determine and implement road user charges in accordance with the financial resource requirements of the annual road maintenance plans;
- deliver the required routine, specific and emergency road maintenance in accordance with the maintenance service levels established for each class or type or road, through the contracting of independent contractors, to monitor and supervise the contracts as they are executed;

- deliver road improvement, and road restoration when required, by undertaking the design studies necessary for the programmed road improvement or rehabilitation projects by:
  - *preparing corresponding construction plans, specifications, cost estimates, and the other documents required for the proper tendering of the programmed works;*
  - *monitoring and supervising the works as are executed, by such qualified consultants and/or contractors as are engaged; and*
  - *ensuring safety audits on design, construction, maintenance and safety aspects of road;*
- establish and sustain contract management capacity to ensure the validity of contracts and the effective management of contracts awarded for the execution of agreed road maintenance works and rehabilitation and reconstruction projects;
- ensure that all contracts are tendered through a transparent and competitive procedure to ascertain economic efficiency and sustainability in delivery of road maintenance and rehabilitation works;
- keep adequate records and to maintain a management information system which provides the Board and staff with accurate and timely information on commitments, expenditures and revenue for the purchase of consultancy and contracting services and other purchases and outlays;
- report publicly and transparently on collection of user charges, revenues, and in detail on the use of the revenues on the road maintenance programmes in accordance with internationally accepted accounting principles;
- establish environmental management capacity;
- provide a continuing programme of professional staff development and required skills training for non-professional staff; and
- construct, erect or affix signs or marks on road transport infrastructure in accordance with the *Motor Traffic Act (Chapter 243)*.

## **35.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **35.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the years ended 31 December 2016 and 2017 were issued on 25 July 2018 and 11 March 2019 respectively. The reports did not contain any qualification.

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

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2016 and 2017 were issued on 25 July 2018 and 11 March 2019 respectively. The reports contained similar observations, hence, only the 2017 is reproduced:

## **Accounting and Operational Procedures Manuals**

Internal control mechanisms such as accounting and operational procedures manual and policies are supposed to be formally established, well documented and communicated to all levels and functions of an organization to be used by all personnel in the routine operational activities. My review revealed that there were no accounting and operational procedures manuals compiled and approved for use by the Authority. This issue was raised in my 2016 audit and yet to be addressed by the Authority.

As such, I was unable to measure and comment on the standards of operations in relation to the systems and controls and whether uniform procedures were followed in respective divisions/sections.

Management noted my comments and advised that they were still reviewing the financial and accounting policy and procedural manual as the contents were comprehensively drafted taking into account all business practices.

## **Bank Reconciliations**

The Authority maintained two (2) bank accounts in 2017, the Operating and Road Fund accounts. *Part 4 Division 1 (4.7)* of the *Financial Management Manual* requires that all heads of government departments and statutory authorities are to ensure that their bank accounts are reconciled on a monthly basis. However, I noted that the bank reconciliations for all the accounts were not prepared and reviewed on a timely basis. Consequently, I was unable to place reliance on the effectiveness of the internal controls surrounding the use and management of cash and the bank reconciliation process.

## **Staff Rental Bond Fees**

The rental bond fees paid to landlords for staff accommodation was disclosed as K500,390 at 31 December 2017. On several instances, I noted that the Authority had not recouped the amounts of bond fees paid when officers moved to new locations or premises. As such, I was not able to confirm whether the Authority maintained proper controls and monitoring systems to keep track of the bond fees paid and refundable. This issue was also raised in the 2016 report.

Management noted my comments and advised that corrective actions would be taken.

## **Staff Debtors/Advance**

My review revealed that the staff debtors balance disclosed was a carried forward amount from prior year. I also noted that the Authority did not maintain a proper Advances Register in 2017.

Further, there was no approved staff/salary Advance Policy in place to guide the Authority in the approval, payments and recouping of the advances made to staff. As a result, I was unable to confirm the accuracy and correctness of the balance disclosed as K58,935 at year end and conclude on the effectiveness of the internal controls surrounding staff advances.

Management responded as follows:

*“Staff advances have ceased since 2013. The current balances are being reconciled against payroll records to confirm monies were actually deducted from the balances. This is a continuing progress where we intend to address and resolve all outstanding monies. Most of the debtors are from the Alesco payroll. There are a number of staff members who left the Authority, whose outstanding loans have not been recovered. These monies will therefore be recommended for write-off as ‘bad debt’.”*

### **Outstanding Payroll Liability – K10,135,424**

The Department of Finance pays for the salaries and allowances through Alesco (Government) Payroll for the Authority employees based on the condition that the amounts paid would be refunded by the Authority. I noted that the Authority had been accruing salaries and allowances paid by Department of Finance since 2011 without any settlements to date. Comments and recommendations made in the 2011-2016 audits for the settlement of the liability were not implemented by management. As a result, the outstanding amount as K10,135,424 at balance date reflected as a liability. Consequently, I was not able to fairly assess and comment on the impact on the overall liquidity position of the Authority.

I raised this issue with the management and they responded that the Authority would formally write to both the Department of Finance and Department of Treasury, seeking further clarification and confirmation of the liability to be offset against their unused funds at the year end.

### **Withholding Tax Payable – K1,368,151**

I noted that 10% withholding tax of K1,368,151 pertaining to contractors without valid certificate of compliance (COC) was withheld by the Authority at year end. During my review, I noted that the Authority had not remitted the amounts, as the paying authority, on a timely basis to the Internal Revenue Commission (IRC) pursuant to *Section 280 (1(f)) and (6) of the Income Tax Act 1959*.

Management responded as follows:

*“Management is aware of the liability and also agrees with the audit on compliance to the provisions to the Income Tax Act. Management has taken appropriate steps to submit the WHT returns and shall continue to settle the tax amount owed to IRC.”*

### **Fixed Assets Register**

My review of the Fixed Assets revealed that the Fixed Assets Register (FAR) of the Authority was not properly maintained and updated on a timely basis. I noted that the locations of the assets and custodian details were not provided in the Register. On several instances, assets were not allocated with numbers tagged to them for identification purposes. As a result, I was not able to place any reliance on the effectiveness of the internal controls surrounding the fixed assets. This issue was also raised in my prior year report with the associated risks as a result of weak internal controls maintained over assets.

The management advised me that corrective measures would be taken to ensure the FAR is updated with proper reconciliations of respective asset accounts.

### **Incorrect Tax Administration**

According to the revised tax rates effective from 1 July 2012 by the Internal Revenue Commission, Port Moresby has been categorized under Area 1 for tax purposes in relation to housing benefits provided by the employer. My review revealed that accommodation for senior officers were paid by the Authority together with motor vehicles provided with fuel. However, the correct prescribed values of the benefit for tax purposes were not included in the calculation of fortnightly salary and wages tax. As a result, the Authority had failed to administer tax correctly and as such, had breached the provisions in the *Income Tax Act 1959*.

Management noted my concern and advised that a review will be done to address this issue.

### **Senior Officer's Contract Allowances**

I noted that contract officers of the Authority were paid contractual allowances of motor vehicle, housing, domestic market allowance and others; however, there was no proper approval given by the Salaries and Condition Monitoring Committee (SCMC) or Department of Personnel Management (DPM). Consequently, I was unable to confirm the basis on which the allowances were paid to the contract officers.

Management responded to my concern as follows:

*“At the time when the salary scale and structure of the Authority was established, SCMC overlooked the contractual allowances, and hence did not sign and stamp the document. However, they provided a draft to the Authority in 2013, which was implemented. The Authority in its view, did not see this as an issues, however, all attempts will be made to have SCMC properly endorse the rates applied.”*

## Staff Rental Accommodation – K793,142

During my review of the staff rental accommodation, I noted severe breakdown of controls and conflict of interest in the administration and management of staff accommodation. There were instances where rentals paid to personnel companies or companies owned by related parties. Most of the companies were registered through IPA however, with no proper compliance to IRC requirements were noted. Furthermore, no interest register was maintained by the Authority for the disclosure of such interests. As a result, the above practice was deemed improper when procedures were not adhered to in the expense of the entity (Authority) for personal gain by officers of the Authority.

Management responded as follows:

*“The task of the Authority regarding lease agreements with respective landlords rests with its Board Secretariat, who provides lease agreements and legal advice on such issues. The Board Secretariat also conducts company searches to verify authenticity and have found no issues.*

*According to their advice, the Companies Act 1997 Division 3 (Separate Legal Personality) Section 16, ‘A company is a legal entity in its own right separate from its shareholders and continues in existence until it is removed from the Register.’*

*On this view, the Board Secretariat has maintained that transactions between the Authority and companies established and registered through IPA, must be dealt with separate from the directors and shareholders. This means that the companies and their shareholders should be treated as separate parties.*

*In terms of taxation matters, the Authority is not in a position to direct companies on how to manage their operations. It is a matter for these companies and their directors/shareholders to deal directly with IRC.”*

### 35.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had submitted its financial statements for the year ended 31 December 2018 and arrangements were being made to commence the audit shortly.



## **36. NATIONAL TRAINING COUNCIL**

### **36.1 INTRODUCTION**

#### **36.1.1 Legislation**

The National Training Council was established under the *National Training Council Act 1991*. Although the Act came into operation on 5 December 1991, the Council formally began operating in April 1992 following its inauguration.

#### **36.1.2 Objectives of the Council**

The objectives of the Council are to:

- foster the comprehensive development of training with regard to the needs and the resources of the country;
- foster the co-ordination of training institutions so that the most effective use can be made of resources available for training which ensures increased productivity and capacity building in the workforce;
- make the benefits of training as widely as possible;
- plan and encourage the development of a system of training fitted to the requirements of the country and its people;
- establish, preserve and improve standards of training throughout the country;
- make the most effective use of the resources available for training related purposes in so far as this can be done by legislative and administrative measures; and
- generally augment and support the role and functions of the Commission for Higher Education as specified in the *Higher Education Act (Chapter 397)*.

#### **36.1.3 Functions of the Council**

The principal functions of the Council are to be responsible for supervising and managing the implementation of the National Training Policy and for monitoring, reviewing and revising the National Training Policy when necessary; to provide guidelines to the NEC, Provincial Government, and the in-service Training Institution's Governing Councils on any issues related to training; and to formulate and publish guidelines on human resource requirements, localisation and indigenisation issues and related matters.

## **36.2 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 2017 had been completed and management responses were being awaited to finalise the audit reports.

The Council had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **37. NATIONAL VOLUNTEER SERVICE**

### **37.1 INTRODUCTION**

#### **37.1.1 Legislation**

The National Volunteer Service was established on 12 April 1990 under the *National Volunteer Service Act 1990*.

#### **37.1.2 Functions of the Service**

The principal functions of the National Volunteer Service are to promote a spirit of sacrifice and service to the people of PNG; to provide labour, skills, education and training to the community for development projects; to cooperate and assist National and Provincial Government agencies as well as other organisations whose goals include the development of the people of PNG, in achieving their plans and purposes; and to encourage and participate generally in the advancement of the development of PNG.

### **37.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Service had not submitted the financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit despite reminders.

## **38. NATIONAL YOUTH DEVELOPMENT AUTHORITY (Formerly National Youth Commission)**

### **38.1 INTRODUCTION**

#### **38.1.1 Legislation**

The National Youth Development Authority was established under the *National Youth Development Authority Act 2014*. This Act came into operation on 21 October 2014, thereby repealing the *National Youth Commission Act 1999*. The Authority commenced its operational activities under the new name on 1 January 2015.

Under the *National Youth Development Authority Act*, all the assets, properties, rights, obligations and liabilities which immediately before the coming into operation of this Act were vested in or imposed on the Commission, are, on that coming into operation, transferred to and became the assets, properties, obligations and liabilities of the Authority.

#### **38.1.2 Functions of the Authority**

The functions of the Authority are to:

- advise the Ministry and the National Government on policy formulation and legislative changes pertaining to youth affairs;
- authorise, coordinate, implement and monitor youth development activities at the National, Provincial and Local-Levels;
- develop and provide policy and technical advice to the Provincial Governments and Local-Level Governments on matters pertaining to youth;
- establish standards, regulate and monitor the level of services and training offered to youth by Government and non-profit organisations;
- monitor the execution of National Youth Development Plans at the Provincial and District levels;
- empower and provide opportunities to enable youth to participate meaningfully in activities at the International, National and Local-Level;
- generate revenue and fund youth programs and activities;
- report to the Minister on any matters referred to it by the Minister from time to time;
- establish and maintain a strong youth network at the National, Provincial, District and Local-Level areas; and
- promote awareness and disseminate information on youth matters through its network.

## 38.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 38.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2014, 2015 and 2016 were issued on 9 August 2018. The reports contained similar Disclaimer of Opinions, hence, only the 2016 report is reproduced:

#### “BASIS FOR DISCLAIMER OF OPINION

##### **Internal Control Environment**

During my review of the internal control system of the Authority for the year ended 31 December 2016, I noted that the Authority’s overall internal control environment was very weak. The internal control processes and procedures were not implemented by the Authority. I also noted a lack of segregation of duties within the Corporate Services Division of the Authority. The staff employed by the Authority both permanent and casual lacked necessary skills and qualifications to perform the accounting and finance and other tasks allocated to them. I further noted that they were not familiar with the *Public Finances (Management) Act 1995*, *General Orders* and other *Financial Procedures* and *Instructions* to strengthen the internal control system of the Authority. As such, I was unable to rely on the overall internal control system of the Authority during the year under review. Consequently, I was unable to place reliance on the Authority’s financial statements for the year ended 31 December 2016.

##### **Cash at Bank – K311,129**

My review of the Authority’s both Operating and Commonwealth Youth Ministers Meeting Fund account bank reconciliations revealed that the bank reconciliations were not prepared, checked and approved by senior finance officers of the Authority during the year under review. I was also not provided with the bank statements and independent bank confirmation of the Commonwealth Youth Ministers Meeting Fund Account to ascertain the completeness and accuracy of the bank balance disclosed in the financial statements. As a result, I was not able to verify and confirm the accuracy and completeness of the balance disclosed at year end.

##### **Fixed Assets – K2,044,796**

My review of the Fixed Assets Register (FAR) of the Authority for the year ended 31 December 2016 revealed that the Authority did not maintain a complete Fixed Assets Register to record details of all fixed assets worth K2,044,796. I noted that the assets lacked proper labeling or tagging for identification purposes. There was also no physical stock take undertaken by the Authority to confirm the existence of assets.

The Fixed Assets Register provided for my verification was incomplete and did not capture all assets purchased over the years. As such, I was unable to conclude on the accuracy, valuation, existence and ownership of the fixed assets disclosed by the Authority as at 31 December 2016.

### **DISCLAIMER OF OPINION**

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Authority for the year ended 31 December 2016.”

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

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2014, 2015 and 2016 were issued on 9 August 2018. The reports contained similar issues, hence, only the 2016 report is reproduced:

#### **Accounting and Administration Procedural Manual**

During my review, I noted that the Authority did not have an accounting and administration procedural manual in place for its staff to carry out tasks in accordance with the required procedures and guidelines applicable to the Authority. I observed that the Authority’s staff were not adhering to the processes and procedures of the *Public Finances (Management) Act 1995*, *General Orders* and other *Financial Manuals and Instructions*. As a result, I noted significant internal control weaknesses within the Authority during the year under review.

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

*“We will provide every staff with a copy of Accounting and Administration Procedural Manual and ensure officers are properly trained on performing accounting functions. We will implement this by the end of the first quarter of 2018.”*

#### **Travel Advance Acquittal Register**

During my review, I noted that there was a complete breakdown in the internal control system of payments and monitoring of the usage and acquittals of the various travel related advances paid to officers of the Authority. The Authority provided an incomplete acquittal register. However, this register lacked necessary supporting documents of hotel receipts/statement of accounts, hire car receipts airline tickets/boarding passes, incidental allowances receipts, cash advance acquittals, etc.

Most of the duty travels taken were not properly and fully acquitted by the concerned officers. As a result, I was unable to trace and authenticate travel advances and related expenses amounting to K495,776 during the year under review. The Authority responded that the Management will have to sought for a way as to how this problem of non-acquittal can be addressed or be solved in the coming years with the travel advance register updated on a timely basis.

### **Internal Control Weaknesses**

Other internal control weaknesses noted during my audit are summarised as follows:

- i.* There was no proper segregation of duties implemented in preparing accounting records as the same person responsible for data entry was also responsible for reconciling the books;
- ii.* The Authority did payments without obtaining three (3) written quotations from reputable suppliers when making payments for expenditure exceeding K5,000 and totalled K208,625. I further noted that some payments were executed on quotations and not on the basis of official suppliers invoice;
- iii.* Payments totalled K48,073 had no delivery dockets/consignment and other supporting documents attached to confirm if the actual goods purchased had been delivered to the Authority for their intended purposes;
- iv.* Pay cash payments made to paymaster totalled K55,420 for various expenses had no proper acquittals attached to determine or confirm if the funds have been utilized for the intended purposes;
- v.* Cheques were issued open for encashment. I further noted that this practice was in place in the prior years and continue to exist up to the time of audit in 2017. It was the Authority's practice to raise pay cash cheques for most of its payments and not directly to the suppliers of goods and services. It was further noted that these payments were not properly acquitted with proper supporting documents. This practice makes the internal control system very weak and expose to irregularities and malpractices;
- vi.* Some payments were made for personal purposes and not for the benefit and interest of the Authority. I further noted some officers of the Authority were paid special allowances for jobs which were supposed to be part of their job descriptions;

- vii. Overtime was claimed by officers who were occupying positions at grade 10 levels and above. Further, hours claimed on overtime sheet were not approved by immediate supervisor or manager to verify the hours claimed by staff before payments were made;
- viii. The Authority did not remit the wages and overtime taxes to Internal Revenue Commission which is in breach of the *Income Tax Act 1959 (as amended)*; and
- ix. The Authority's personnel files were not updated with birth certificates or statutory declarations to verify the legitimacy of their dependents. Further, there was no segregation of duties noted in payroll section.

I drew management's attention to these weaknesses and I was advised that the Authority will ensure to improve this year onwards.

### **38.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements for the Authority for the year ended 31 December 2017 had been completed. The management responses were submitted and the audit reports are expected to be issued shortly.

The Authority had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.



## **39. OFFICE OF THE INSURANCE COMMISSIONER**

### **39.1 INTRODUCTION**

#### **39.1.1 Legislation**

The Office of the Insurance Commissioner was established under the *Insurance Act 1995*. The Trust Fund of the Insurance Commissioner was established in accordance with *Section 15* of the *Public Finances (Management) Act 1995*.

The Office of the Insurance Commissioner was funded by Treasury Department prior to 1998. In accordance with *Section 64C subsection 4 (a) and (b)* of the *Insurance Act 1995*, the Office of the Insurance Commissioner became a self-funded organisation through 1% levy collected from the Insurers and Brokers' annual revenue from 1998.

#### **39.1.2 Functions of the Insurance Commissioner**

The main function of the Insurance Commissioner is; the regulator for general insurance businesses in Papua New Guinea who administers the *Insurance Act 1995* and issues licences to:

- Insurers;
- Brokers and
- Loss adjusters.

### **39.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **39.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8 (4)* of the *Audit Act* on the Office of the Insurance Commissioner's financial statements for the years ended 31 December 2016 and 2017 were issued on 13 May 2019. The reports contained similar Disclaimer of Opinions, hence, only the 2017 report is reproduced.

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

##### **Opening Balances**

During my review, I noted that the trust fund was opened in 1998 to deposit the collection of 1% levy fees from the Insurers and Brokers to support the operation of the Office of Insurance Commissioner. However, the Commissioner's accounts and records were never been audited since its establishment and 2016 accounts were disclaimed. As a result, I was unable to verify the opening balances of 2017 financial statements to ascertain the completeness and accuracy of the opening account balances.

**Data Loss**

During my review, I noted that insurance levy schedules and other documents were lost by the IT Consultant who was engaged by the Commissioner in September 2018 to work on the server. The Commissioner did not have any back-up done for its accounts and records for the years since its establishment in 1998. As a result, I was unable to rely on the accounts and records prepared by the Consultant as they were not reliable. Furthermore, in the absence of data back-up, I was not able to determine the validity and authenticity of the receipts and payments of the Insurance Commissioner's Office as disclosed in the financial statements.

**Cash at Bank – K4,863,249**

During my review, I noted a variance of K117,372 between the bank reconciliation statements balance of K4,745,877 and the cashbook balance of K4,863,249 as at year end. As a result, the balance of cash at bank was overstated by K117,372 in the financial statements for the year ended 31 December 2017. Further, the independent bank confirmation certificates for the Commissioner's trust and the other accounts for the year ended 31 December 2017 were not provided for my review. As a result, I was unable to confirm the closing bank balances as reported in the financial statements.

**Fixed Assets – K189,365**

During my review of the fixed assets, I noted that the fixed assets balance of K189,365 disclosed in the financial statements only represented the additions (purchases) made during the year under review. The carrying balance of all assets dating back to 1998 when the Insurance Commissioner's office was established could not be determined. As a result, the balance disclosed in the financial statements was materially understated.

**Levy Income – K2,670,906**

During my review of the levy income, I was not provided with all the annual returns and audited financial statements for all insurers to confirm the insurers' premium balances from which the 1% levy was calculated.

The Commissioner's Office calculated levy income based on the audited financial statements and the annual returns figures. In the absence of proper source documents, I was unable to comment on the validity, accuracy and completeness of levy income stated in the financial statements.

**Sundry Income – K58,658**

I was not able to ascertain the validity, accuracy and completeness of the Sundry Income balance of K58,658 as no supporting documents were provided for my review. There was no audit trail from the general ledger, transaction details, receipt and deposit books and the bank statements to enable me to carry out the necessary audit procedures. As a result, I was not able to ascertain the validity, accuracy and completeness of the Sundry Income.

**DISCLAIMER OF AUDIT OPINION**

Because of the significance of the matters described in the Basis for the Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient audit evidence and accordingly, I am unable to express an opinion on the financial statements of the Office of the Insurance Commissioner for the year ended 31 December 2017.”

**39.2.2 Audit Observations Reported to the Ministers**

My reports to the Ministers under *Section 8 (2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commissioner’s Trust Fund for the years ended 31 December 2016 and 2017 were issued on 13 May 2019. The reports contained similar observations, hence, only the 2017 report is reproduced:

**Non-Submission of Financial Statements**

The Insurance Commissioner’s Office had not prepared and submitted its financial statements for the year ended 31 December 2017, to enable me to conduct the audit within the timeframe stipulated by the Act. Consequently, the Insurance Commissioner had breached *Sections 63 (2)* and *63 (4)* of the *Public Finances (Management) Act 1995*.

**Bank Account – 100058793?**

During my review, I noted that the Commissioner’s Office generated interest and that the proceeds from the interest earned were deposited into BSP bank account number 100058793? (one digit missing). A total of K7,973 interest earned were deposited into this account during the year under review. However, there was no cash book or bank reconciliations maintained for this bank account. As a result, I was unable to verify and confirm the existence, accuracy, completeness and the (account name) ownership of the bank account.

I drew this to the management of the Commissioner’s office and they responded as follows:

*“This account details or existence is unknown for some reason as it has a number short from the standard account number allocation. The details will be obtained from the bank and if any form of transaction is made from the account will be known as well.”*

### **Bank Reconciliation – Segregation of Duties**

My review on the Bank reconciliations revealed that there was no segregation of duties implemented between the preparer and the reviewer during the year under review. The bank reconciliation is a key control mechanism to detect errors and instances of fraud and irregularities and ensure the bank records were reconciled with the cash book. As a result, I was unable to place reliance on the effectiveness of the controls surrounding the bank reconciliation function.

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

*“The management is happy with your recommendation on the segregation of duties as it is a very important internal control mechanism for checks and balances on bank reconciliations. In future, we will have senior officers to review and sign off after every month.”*

### **Fixed Assets**

During my review of the fixed assets, I noted that the Commissioner’s Office had not maintained a Fixed Assets Register since the establishment of the Office of Insurance Commissioner. However, the assets purchased during the year were disclosed in the financial statements without the opening balances and the year-end balances. As a result, I was not able to verify the existence, ownership and accuracy of the fixed assets valuation for the year ended 31 December 2017.

Management responded to my observation as follows:

*“The office of the Insurance Commissioner appreciates your recommendation and will certainly establish a Fixed Assets Register. We will record all our assets and action will be taken on this matter soon. The Assets Register is now available to register all the assets of Office of the Insurance Commissioner.”*

### **Licensed Broker Levy**

During my review of the revenue, I noted that the Commissioner’s office had not been collecting the 1% levy fees from the Brokers as stipulated in *Section 64 (c) 2* of the *Insurance Act 1995*. There were seven (7) licenced Brokers operating in the country without paying any fees. As a result, the Commissioner’s office had lost its revenue by not collecting the 1% levy from the Licensed Brokers as stipulated in the *Insurance Act 1995*.

I drew this issue to the attention of the Management and they responded as follows:

*“We appreciate your comments and will take appropriate actions soon on this matter.”*

### **No Levy Penalty Charged**

During my review of levy collections, I noted that a number of Insurers had not paid their levy fees on due dates. These levy fees were still outstanding for more than 30 days which attracts penalty fees (a fine not exceeding K10,000) to be charged to the Insurers as stipulated under *Section 64(c) (5) of the Insurance Act 1995*. However, the Commissioner’s Office had not invoked this provision to warn the defaulted Insurers.

I queried the Commissioner’s management of this issue and they responded to my query as follows:

*“For any penalties for levy collected or any price change in regards to levy or license fees are authorised by the Treasury Department. We will take into account your recommendation and request from Treasury.”*

### **Personnel Files**

My review of permanent staff personnel files revealed that the contract of employment and offer letters for staff were not filed and maintained in the staff personnel files. The following documents were not filed properly in their respective personnel files:

- History cards to show the up to date leave records;
- Salary cards to record the changes to the salary and allowances for each officer;
- Salary and wages declaration forms to show the declared dependents to claim for leave fares and income tax calculations; and
- Birth certificates to verify and confirm the ages of the dependents claiming the leave fares.

In the absence of the above valid documents, I was unable to verify and confirm the leave records, changes to salary, declared dependents and their ages and tax calculations.

I drew this observation to the management and they responded as follows:

*“The function was previously done by Treasury and now transferred to OIC. We will obtain the copies of the contract of employment and offer letters from Treasury and file them in their respective personnel files. We will also take up your recommendation on salary and history cards, salary and wages declaration forms and birth certificates and update their personnel files.”*

## Casual Staff Tax and Tax Remittance

My review of wages revealed that the Commissioner had calculated tax every fortnight from the casual wages as well as overtime for pay number one to twenty-six totaling K166,716 for the year ended 31 December 2017. However, this was not recorded or taken up in the MYOB accounting system of the Commissioner. Furthermore, casual wages tax of K166,716 was not remitted to the Internal Revenue Commission (IRC) in accordance with the *Income Tax Act 1959 (as amended)*.

I brought these issues to the attention of the management and they responded to my observation as follows:

*“The Office of the Insurance Commissioner will take corrective actions on these issues.”*

## Travel and Subsistence

During my review of the travel and subsistence, I noted the following discrepancies:

- The Commissioner did not maintain a Travel Advance/Acquittal Register to keep proper records of all the duty travel advances taken;
- The payment of accommodation for travels both overseas and domestic travels were paid by cash to the officer travelling instead of paying to the service providers;
- Receipts and invoices from the hotels were not attached to both the payment vouchers and the acquittal forms as per *General Order 13.94c*;
- Payments for accommodations for domestic travels were made based on proforma invoices instead of invoices and quotations;
- No three written quotations were obtained to comply with the requirements of *Public Finances (Management) Act 1995* and *Financial Instructions 2/2013 (point 5.1)* which requires that *“Purchases for amounts between K5001 and K500,000 should require three written quotations;*
- For overseas travels, the travelling officers were receiving in cash US\$ 250 per night for accommodation and US\$200 travelling allowances which had no basis to substantiate the rates being used; and
- For overseas travels, the Commissioner got US\$2,500, Deputy Commissioner got US\$2,000 and Assistant Commissioner got US\$1,500 allowances respectively for visa fees, telephone, fax, taxi and entertainment. However, there was no policy or basis for the extra allowances taken for overseas travels. In addition, no proper acquittals were made to account for the advance paid to them. As a result, I was unable to verify the rates and whether the payments were made for the intended purposes.

I drew my observation to the management and the management responded as follows:

*“The management takes full note on this issue and will consider necessary steps to improve and take control measures on the expenses on travel and subsistence. We will ensure all travels cost are acquitted and kept in proper filing system.”*

### **Payment without Contract Agreements**

There were Service providers engaged by the Commissioner’s Office during the year under review to provide services to the Office totalling K801,699. However, I was not provided with the contract agreements to confirm the validity and the correctness of the payments made to them. I was not able to verify the amount presented in the financial statements due to absence of contract documents.

The management responded to my query as follows:

*“We take note of this issue. However, sometimes it’s human ignorance or thinking its fine when expenses are genuine to the interest of the Office. OIC will improve on this matter as one of the priority issues to address when providing goods and services to the Commissioner’s Office. We also advise that OIC must maintain flexibility and not to be bound by contracts.”*

### **Internal Control Weaknesses**

Other internal controls breakdown and weaknesses noted during my audit were summarized as follows:

- (i) My examination of expenses revealed that payments totalling K256,991 were paid without obtaining three quotations. As a result, I was unable to ascertain if value for money was obtained for goods and services procured;
- (ii) I was not able to substantiate the validity and the authenticity of payments amounting to K307,145 due to lack of supporting documents;
- (iii) The OIC paid cash payments totaling K78,100 for various payments and no proper acquittals attached to determine or confirm that the payments were utilized for the intended purposes;
- (iv) There were instances where payments totaling K216,522 had no delivery dockets/consignment and other supporting documents to confirm if the actual goods purchased had been delivered to the Commissioner for their intended purposes. As a result, I was not able to confirm if the goods purchased were actually delivered to the Commissioner;
- (v) I noted payments amounting to K808,375 were made without supporting documents in the payment voucher files; and

- (vi) I noted during my review of payments that OIC do not have a proper filing system in place. As a result, many documents (payment vouchers) were missing from the files.

*The Management agreed to take necessary action to rectify the above internal control issues.*

### **39.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Commissioner had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.



## **40. OIL PALM INDUSTRY CORPORATION**

### **40.1 INTRODUCTION**

#### **40.1.1 Legislation**

The Oil Palm Industry Corporation was established by the *Oil Palm Industry Corporation Act 1992* which came into operation on 1 June 1992. Under the Act, all assets (other than land held by the State) and liabilities previously held or occupied by the Division of the Department of Agriculture and Livestock responsible for the provision of extension services to oil palm industry, were transferred to the Corporation at commencement date.

#### **40.1.2 Functions of the Corporation**

The main functions of the Corporation are to:

- promote the development of the oil palm industry;
- encourage the increase in productivity by efficient provision of extension services to smallholders;
- provide advice and disseminate information and educate smallholders regarding oil palm production methods; and
- consult, liaise and collaborate with the State and other agencies involved in the oil palm industry.

### **40.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Corporation had not submitted its financial statements for the years ended 31 December 2012, 2013, 2014, 2015, 2016, 2017 and 2018 for my inspection and audit, despite numerous reminders from my Office.

## **41. OMBUDSMAN COMMISSION OF PAPUA NEW GUINEA**

### **41.1 INTRODUCTION**

#### **41.1.1 Legislation**

The Ombudsman Commission was established under *Section 217* of the Constitution of the Independent State of PNG. The principal objectives of the Commission are: to ensure that all governmental bodies are responsive to the needs and aspirations of the people; to help in the improvement of the work of governmental bodies and the elimination of unfairness and discrimination by them; to help in the elimination of unfair or otherwise defective legislation and practices affecting or administered by governmental bodies; and to supervise the enforcement of the Leadership Code.

#### **41.1.2 Functions of the Commission**

The functions of the Commission are to:

- investigate on its own initiative or on complaint by a person affected, any conduct on the part of any State or provincial or local governmental, or other governmental body or a member or officer or employee of any such body, any member of the personal staff of the Governor-General, Minister or the Leader or Deputy Leader of the Opposition, or any other body or person as may be declared by an Organic Law or an Act of Parliament, to which the Leadership Code applies;
- investigate any defects in any law or administrative practice appearing from any such investigation;
- investigate any case of an alleged or suspected discriminatory practice within the meaning of a law prohibiting such practices; and
- any functions conferred upon it by *Part III Division 2 (Leadership Code)* of the National Constitution.

### **41.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **41.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the year ended 31 December 2016 was issued on 20 February 2019. The report contained a Qualified Opinion.

## “BASIS FOR QUALIFIED OPINION

### Cash at Bank Balance – K5,842,672

My examination of the bank reconciliations and their related records revealed that the Commission’s Main Operating Account bank reconciliations for the twelve (12) months were not properly prepared and reviewed. I noted an unreconciled difference of K164,747 between the Statement of Receipts and Payments balance of K6,007,419 and the cash at bank amount of K5,842,672 at year end. As a result, I was unable to conclude on the accuracy and correctness of the cash balance reported in the Statement of Receipts and Payments as at 31 December 2016.

## AUDIT OPINION

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

- a) are based on proper accounts and records; and
- b) are in agreement with those accounts and records, and show fairly the state of affairs of the Commission for the year ended 31 December, 2016 and the results of its financial operations and cash flows for the year then ended.”

### 41.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the year ended 31 December 2016 was issued on 20 February 2019. The report contained the following observations:

#### Accounting System

My review of the Commission’s accounts and records revealed that the Commission had used the PGAS accounting system and excel spreadsheet to record its transactions in 2016 and prior years. Payroll had been processed separately using the CHRIS 21 payroll system and then manually transferred to the PGAS accounting system to account for payroll expenses. These systems were not linked or data not systematically transferred to PGAS. I also noted that sufficient support was not provided by the Department of Finance to address the technical issues faced by the Commission in relation to PGAS. I drew the Commission’s attention by emphasizing that financial data and records were susceptible to mistakes, errors and were also prone to alteration and manipulation while transferring data to PGAS system.

I recommended that the Commission deliberate and decide on a user friendly accounting system or provide more training to staff to perform their duties effectively. I further stressed that employing a user friendly accounting system would provide accurate and timely management and statutory reports; hence the integrity of the financial information will be enhanced. The Commission acknowledged and accepted the recommendation for a user friendly accounting system to be purchased based on the availability of funds.

### **Timely Preparation of Bank Reconciliations and Segregation of Duties**

Despite my prior years' recommendations, I still noted that the system generated monthly bank reconciliations for the main operating account from the PGAS Accounting System were not prepared and reviewed on a timely basis. There was no indication or evidence of the preparer and reviewer confirming reconciliations for accuracy and correctness. As a result, I was unable to authenticate whether there was proper segregation of duties in the preparation of bank reconciliations and whether the bank reconciliations were done on a timely manner.

I brought this to the attention of the management again by highlighting that lack of timely preparation and segregation of duties over the bank reconciliation function may result in unidentified errors and possible fraudulent application of public monies without being detected by the Commission.

The Commission acknowledged my finding and responded that the Commission had created in its re-structure pending endorsement from Department of Personnel Management, a bank reconciliation officer to minimize financial risk and improve controls surrounding bank reconciliation function.

### **Fixed Assets**

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

- **Lack of Proper Maintenance and Update of Fixed Assets Register (FAR)**

The Fixed Assets Register (FAR) is the main control mechanism that captures and shows the value and the ownership of the assets of an organization. During my review, I was not provided with the updated FAR to confirm the balance of K14,877,749 representing fixed assets disclosed in the Statement of Receipts and Payments. I further noted that no stock-take exercise was carried out by the Commission during the year under review. This poses a risk of assets being misused or lost through theft. In the absence of a proper Fixed Assets Register and lack of routine stock-take, I was unable to perform the necessary audit procedures to determine the value, condition and existence of assets totaling K14,877,749 disclosed in the Statement of Receipts and Payments as at 31 December 2016.

I brought this issue again to the attention and the Commission responded that it will implement the audit recommendation to purchase an assets management system when it secures necessary funding.

- **Institutional Housing Policy**

The Commission had built eight new houses and acquired one duplex for staff accommodation. The eight new houses were completed in 2015, fully furnished and commissioned in early 2016. The duplex was acquired from National Housing Commission in 2015 and all the properties were located in Gerehu Stage 3B. However, I was not furnished with the updated housing policy to further comment on the basis of allocation of houses to staff. I also noted that the Commission continued to pay housing allowances to staff including senior officers despite institutional housing being provided.

I brought this issue to the Commission stating that this practice may be considered as double dipping and non-compliance with *General Order 9.56* which states that *“A senior officer is not eligible for housing allowance whilst occupying institutional accommodation provided by the employing Department.”*

The Commission responded to my observation as follows:

*“this recommendation was considered by management in 2017. Commission has now taken full responsibility of the issue and implemented in 2018 dating back to 1/1/18, 100% of allowance is now forfeited.”*

### **Leave Fares**

My review of leave fares paid out in 2016 revealed that the Commission did not comply with the requirements of *General Order 14.47 (GO14.47)*. *GO14.47* requires that *“An officer shall pay to the State at the time of applying for payment of recreation leave fares, a contribution towards the cost of the fares which shall be calculated at ten per cent of his/her gross substantive fortnightly salary at the date immediately prior to proceeding on recreation leave.”*

I recommended the Commission to comply with the requirements of *General Order 14.47* and ensure an applicable HR Procedural Manual is developed for good corporate governance.

The Commission agreed with my recommendation and responded as follows:

*“Commission acknowledges the recommendation. The draft HR Manual is now approved and in full operation commencing 1/1/18. Hence, General Orders will no longer be applicable to the Commission. Where the Manual is silent on certain matters, the Commission will review and make a decision.”*

*The 10% practice under the GO will be considered if the HR Manual stipulates same and commence implementation immediately.”*

### **Staff Personnel Files**

My examination of staff personnel files revealed that most of the personnel files were not properly maintained with salary history cards and birth certificates supporting leave fares incurred for dependents claimed. In the absence of the birth certificates, I was unable to verify that the dependents claimed were legitimately under the age of 19 as required by the *Public Services General Order 14.41*.

I recommended the management to ensure that salary history cards and copies of dependents birth certificates are properly maintained in the personnel files.

The Commission responded to my observation as follows:

*“Commission acknowledges recommendation and will ensure to maintain appropriate documentation on files. Further, that implementation of the OC HR Manual will be considered hereon as the GO is no longer applicable in 2018.”*

### **41.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2017 had been completed and the audit reports were being finalised.

The financial statements of the Commission for the year ended 31 December 2018 was submitted and arrangements were being made to commence the audit shortly.

## **42. PAPUA NEW GUINEA ACCIDENT INVESTIGATION COMMISSION**

### **42.1 INTRODUCTION**

#### **42.1.1 Legislation**

The *Papua New Guinea Accident Investigation Commission* was established under *Section 218 of the Civil Aviation Act 2000 (as amended)* and came into operation in January 2011.

#### **42.1.2 Objective of the Commission**

The principal purpose of the Commission is to determine the circumstances and causes of accidents and incidents with a view to avoiding similar occurrences in the future, rather than to ascribe blame to any person.

#### **42.1.3 Functions of the Commission**

- The principal function of the Commission is the Investigation of aviation accidents and incidents;
- The Minister may, by notice in the National Gazette, direct the Commission to investigate any serious land or marine transport accident or incident;
- Where a direction is given under *Subsection (2)*, all references to an “*aircraft*” shall be read as a reference to the vehicle or vessel or other form of transport involved in the accident or incident to be investigated;
- Without limiting the principal function under *Subsection (1)*, the Commission shall also have the following functions:
  - Make such inquiries and investigations as it considers appropriate in order to ascertain the cause or causes of accidents or incidents;
  - Co-ordinate and direct all such inquiries and investigations and to determine which other parties, if any, should be involved in the investigation;
  - Prepare and publish findings and recommendations, if any, in respect of any such inquiries and investigation;
  - Where requested by the Minister, to deliver a written report on each investigation to the Minister, including any recommendations for changes or improvements that it considers will ensure avoidance of accidents and incidents in the future;
  - Co-ordinate and co-operate with other accident investigation organisations of Contracting States, including taking or collecting evidence on their behalf;

- Request from the Authority or PNG Air Traffic Services (PNGATS) or any other person such information as it considers appropriate regarding any accident or incident that the Commission believes that it is required to investigate under this Act;
- Perform any other function or duty conferred on the Commission under any Act or prescribed by regulations; and
- With the consent of the Minister, to provide consulting services, training and management services relating to any of its functions, whether in PNG or overseas.

## **42.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **42.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Commission's financial statements for the years ended 31 December 2013, 2014, 2015 and 2016 were issued on 27 September 2018 while the 2017 report was issued on 28 June 2019. These reports did not contain any qualifications.

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

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Commission for the years ended 31 December 2013, 2014, 2015 and 2016 were issued on 27 September 2018 while the 2017 report was issued on 28 June 2019. These reports contain similar observations, hence, only the 2017 report is reproduced. However, certain serious issues from prior years are also reported here:

#### **Set up of Charts of Accounts in the MYOB Accounting System**

The Commission's chart of accounts (General Ledgers) was observed to be reliable. However, there is still a need for improvement to avoid posting errors, omissions and unsupported transactions. The cash book of the Commission needs to capture vital information including general ledger codes, transaction details and payment particulars.

#### **Financial Delegation Authority**

The Chief Executive Officer (CEO) of the Commission is given the ultimate (highest) financial authority to approve all expenditures irrespective of their values. I advised that such a practice of giving overwhelming financial powers for approval to a single person can lead to abuse of powers in controlling finances which may results in misuse of public funds.



The management responded that:

*“Concern on the Delegation of Financial Authority in the PNGAIC has officially been brought to the attention of the PNGAIC Board. The Manager for Finance is seeking further information and guide from the Department of Finance concerning Delegation of Financial Authority by the Department of Finance to senior finance managers and CEOs of respective government departments and agencies like PNGAIC.”*

### **Employment of Expatriate under TSSP/AHC Co-funding Arrangement**

I noted that an expatriate has been employed by the PNG Accident Investigation Commission as Aircraft Operations Investigation Manager since 31 October 2016. The employment of the expatriate was arranged between the Australian High Commission (AHC) and PNGAIC under the PNG-Australia Transport Sector Support Program (TSSP). The contract of employment has been for three years commencing 31 October 2016 to 30 October 2019.

Per the standing agreement between AHC and PNGAIC, salary of the expatriate employee is to be shared in the ratio 4:1 (80% by AHC and 20% by PNGAIC) for the first year, 7:3 (70% by AHC and 30% by PNGAIC) for the second year and 3:2 (60% by AHC and 40% by PNGAIC) for the third year.

My review for compliance with the standing agreement between AHC and PNGAIC revealed that for the first year of contract (2017), 100% of the expatriate’s salary was paid for by the PNGAIC which was beyond its budget and commitment. Subsequently, K1,040,863 was invoiced to AHC being 80% share of the expatriate’s total salary costs met by the PNGAIC in 2017. However, AHC refunded only K751,828 which resulted in underpayment of K289,035. I further identified inconsistencies by parties to the agreement in applying exchange rates ruling at the transaction date (date of contract) which contributed to the variation.

I brought these issues to the attention of the management and they responded that:

*“There are more issues to this case than those revealed through the audit review. The Chief Commissioner and PNGAIC’s CEO will have to take this matter to a higher level and pursue payment of the balance in 2019. Actual total charges claimed for reimbursement was K1,070,334 but received K751,828 only. The outstanding for 2017 now is K318,545. The outstanding constitutes K269,517 in exchange rate variance and K48,989 for annual leave not paid, which AHC claimed it to be excessive.”*

### **Internal Auditor**

I noted that the Commission has no internal auditor since its establishment. I advised that having an internal auditor provides and promotes sound internal controls and adds value.

The management stated that:

*“The new CEO will have to assess the need of this position as the relevant Standard Operational Procedures (SOPs) and PNGAIC’s own Financial Management Manual are yet to be drawn up and established in 2019. When the required documents are completed they will be submitted to the Board for their approval. This position was not budgeted for the 2019 financial year hence, will be included in the 2020 budget submission. With the new rule of the Finance Department, budget for vacant positions are not funded.”*

### **Board Sitting Allowances & Stipends**

Board sitting allowances and stipends were paid at rates above the category nominated by the *Board Fees & Sitting Allowances Determination 2000 (Schedule)* which is effective from January 2000. The Board members were using the rates for Category A “*Commercial Statutory Authorities / Government Financial Institutions*” rather than the Category B “*Non-Commercial / Funded Organizations.*” I brought this to the management and they advised that:

*“In 2018, the current Board has made a resolution to comply with Category B and at the same time lodged a submission to the DPM/SCMC to relook at the old rates and have CPI adjustments to be included into these old stipend rates.”*

### **CEO’s Motor Vehicle Allowance**

The former CEO having personally approved that his motor vehicle allowance be paid fortnightly was also in possession of a Commission’s motor vehicle on an unrestricted use basis. As a result, he benefited above the annual motor vehicle allowance of K72,623 provided for under his contract. Further, I observed during the audit that after the former CEO’s contract expired in early 2018, he continued to take possession of his official vehicle Toyota Land Cruiser. In total from 2013 to 2016, the former CEO had been paid K271,992 as motor vehicle allowance while he was provided with the Commission’s vehicle.

I brought this to the attention of the current management and they responded that:

*“The former CEO decided to use the Commission’s Land Cruiser ZGP 621, 24/7 though he instructed for full motor vehicle allowance to be paid fortnightly. The illegal use and possession of the Commission vehicle by the former CEO is included in the investigation report of the Board and this has been submitted to the Police Fraud Squad.”*

## Office Renovation

PNG Accident Investigation Commission (PNGAIC) had expended K1,107,509 on renovation of an Office Complex at 7 mile, Port Moresby. I noted that the Commission deemed to own the property without any legal evidence to substantiate its claim over it. Despite the uncertainty that existed over right to the property, the management through the former CEO tendered the work and pushed for deliberation by the Central Supplies and Tenders Board (CSTB). The CSTB awarded the renovation project to a contractor at a value of K900,010.

My review of the renovation work carried out by the contractor noted that the work was left incomplete. On the contrary, the contractor was paid in excess of the agreed contract value. Three (3) separate payments totaled K1,107,509 were made to the contractor. The total payment was K207,499 in excess of the allowed contract price although the work was incomplete.

Documentations related to Tender Committee deliberation and approval granted in 2012 for the renovation project were not made available for my review. I also noted that payments were made without certified technical progressive reports on the project status. My inspection at the project site revealed that work done before its suspension was very little and not of value for money.

I brought this to the attention of the management and they responded that:

*“The former CEO got three (3) quotes from three (3) local contractors for this project. CEO made a submission to CSTB for awarding the contract to P&P Real Estate (PPRE), though management recommended another contractor for the project; former CEO held meetings with CSTB and managed to secure the contract to PPRE. The scope of work stated in the contract was never completed by PPRE.”*

## CEO’s Housing Allowance

The former CEO was entitled to housing allowance of K73,840 per annum as per his contract with the State. However, he rented two (2) properties, one for himself and one for his other family. Hence, PNGAIC paid a total K110,694 as accommodation costs of the former CEO. As a result, K36,854 was paid in excess of the former CEO’s contractual entitlement.

I brought this to the attention of the current management and they responded that:

*“This decision was made by the former CEO for rental accommodations to him and his other family. He only provided the rental invoices for payments and lease agreements were not provided to the Commission.”*

### **42.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Commission for the year ended 31 December 2018 had not been submitted for my inspection and audit.

## **43. PAPUA NEW GUINEA CUSTOMS SERVICE**

### **43.1 INTRODUCTION**

#### **43.1.1 Legislation**

The National Executive Council (NEC) in its meeting on 24 July 2014, *Decision No: 216/2014* approved that the Papua New Guinea Customs Service be transformed from the National Public Service into an Independent Statutory Authority through a separate Act of Parliament.

In accordance with the NEC Decision, the *Papua New Guinea Customs Service Act 2014* was drafted and certified on 21 October 2014, establishing the Papua New Guinea Customs Service as a Statutory Authority.

Prior to November 2014, the Papua New Guinea Customs Service was operating as a Department of the National Public Service.

#### **43.1.2 The Functions of the Service**

The functions of the Papua New Guinea Customs Service are to:

- administer and enforce the customs laws;
- promote compliance with the customs laws;
- take such measures as may be required to improve service provided to importers and exporters with a view to improving efficiency and maximising revenue collection;
- take such measures as may be required to counteract customs fraud and other forms of duty evasion;
- advise the State on matters relating to customs and to liaise with relevant stakeholders on such matters;
- represent the State internationally in respect of matters relating to customs; and
- carry out such functions as are given to the Papua New Guinea Customs Service under this Act or any other law.

### **43.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **43.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Service's financial statements for the period 21 October 2014 to 31 December 2014 and for the years ended 31 December 2015 and 2016 were issued on 31 May 2019. The reports contained similar Qualified Opinions, hence, only the 2016 report is reproduced.

**“BASIS FOR QUALIFIED OPINION****Opening Balance – K8,750,597**

My opinion on the financial statements for the PNG Customs Service for the year ended 31 December 2015 contained a qualified opinion due to lack of timely bank reconciliations resulting in lack of audit trail and my inability to verify and confirm the cash balances at year end. As the 2015 ending balance will form the basis of the opening balance at 1 January 2016, I am unable to comment whether any adjustments that might be necessary would have a consequential effect on the determination of the financial performance for the year ended 31 December 2016.

Therefore, I was unable to determine the accuracy of the statement of receipts and payments and the cash balance for the year ended 31 December 2016.

**Cash at Bank (Drawing Account)**

My review of the bank reconciliations relating to the drawing account revealed the following issues:

- bank reconciliations were not properly and timely prepared in 2016. As a result, reimbursements dating back to 2013 noted in the bank reconciliations have accumulated to K87,019,877 with a material unexplained negative balance in the cashbook; and
- cheques totaling K1,114,486 have remained un-presented for more than one (1) year and have become stale. No timely reviews and investigation of the outstanding cheques were performed.

Due to the above issues, I was unable to gain comfort on the effectiveness of the bank reconciliation process and whether balances derived and disclosed were correct and true.

**Revenue Administration Trust Account – K35,038,330**

My review noted that the Service did not maintain a cashbook and perform bank reconciliations for its Revenue Administration Trust Account for the year ended 31 December 2016. Thus, I was not provided any supporting documentation at the time of the audit for my review. As a result, I was unable to conclude on the accuracy, completeness and existence of the cash balance disclosed at year end.

## QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs above, the financial statements of the PNG Customs Service:

- a) are based on proper accounts and records; and
- b) are in agreement with those accounts and records, and show fairly the state of affairs of the Service for the year ended 31 December 2016 and the results of its financial operations and cash flows for the year then ended.”

### 43.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Service for the period 21 October 2014 to 31 December 2014 and for the years ended 31 December 2015 and 2016 were issued on 31 May 2019. The reports contained similar observations, hence, only the 2016 report is reproduced:

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

The *Public Finances (Management) Act 1995 Section 63(2)* and *63(4)* requires the Service to furnish to the Minister before 30 June each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. Before furnishing financial statements to the Minister, the Service shall submit them to the Auditor-General who shall report to the Minister. However, the Service had not prepared and submitted its financial statements for the year ended 31 December 2016 to my Office on a timely basis to enable me to complete the audit on time for tabling the report in the Parliament before 30 June 2017. Accordingly, the Service had breached *Section 63(2)* and *63(4)* of the *Public Finances (Management) Act 1995*.

#### **Operational Policy Manuals**

My review revealed that the Service did not have in place a financial policy and procedural manuals. The financial policy and procedural manuals such as accounting manuals, operational guidelines and policies of an entity are control mechanism that ensures uniform application of processes across all levels of management and must be formally established, well documented and communicated to all levels and functions of the organization to be used by all personnel in the routine operational activities. In the absence of clearly designed and approved policy manuals and guidelines, there is a high risk of abuses and malpractices to take place within the Service. As a result, I was unable to measure and comment on the standards of operations in relation to the systems and controls and whether uniform procedures were followed in respective divisions.

I raised this issue and management responded that the revenue wing already have a draft policy in place whilst the expenditure wing is still in the process of drafting it.

### **Risk Management Framework/Plan**

The Service uses a financial risk management framework/plan to assess and respond to its risks. This document was approved and used since 2011. I noted that the document requires biannual reviews however, no reviews had been done to date. As a result, I am unable to comment on whether there was an updated risk management plan in place to mitigate risks to an acceptably low level during the year under review.

I raised this issue and recommended the management to review the risk management framework biannually. Management responded to my comments as follows:

*“PNG Customs is currently reviewing the financial risk management framework and will be submitting to PNG Customs Council for approval.”*

### **Revenue Accounting System**

My review of the revenue accounting systems and processes revealed that the recording of receipts were done manually without a proper accounting system in place. Although, there was a system known as ASYCUDA Software being implemented, this system only facilitates receipting of transactions without the integration of the accounting and reconciliation functions.

I brought this issue to the attention of the management and they responded as follows:

*“Customs management is discussing this matter with the Department of Finance to set up an Accounting Software to interface with Integrated Financial Management System (IFMS).”*

### **Cash at Bank – Independent Bank Confirmation**

I was not provided with the independent bank confirmations on the balances of the drawing account and the other three (3) trust accounts maintained by the PNG Customs Service during the year. As a result, I was unable to confirm and verify the cash balances disclosed at the year end.

### **Personnel Emoluments Control Weaknesses**

My review of the payroll and related expenditures for the year revealed several control weaknesses as noted below:

- The Customs Service did not have an appraisal committee in place to comply with *Public Service General Order 5* under staff performance appraisal guidelines *Section 3.3*.



Instead, human resource obtains and processes appraisals as recommended by supervisors without going through an appraisal committee and the Chief Commissioner of Customs;

- Personnel files were not properly maintained. As such, documents such as history cards, salary cards, salary and wages declaration forms and birth certificates could not be located for my verification as to whether correct rates were applied and paid to officers; and
- Supporting documents in relation to variation of salaries and allowances as a result of acting appointments, increments and promotions, higher duty allowances and back payments were not properly documented and filed in the respective staff personnel files.

Due to the above weaknesses, I was not able to comment on whether payroll related expenses were correctly calculated and paid. I raised this issue and recommended management to maintain proper records relating to staff costs.

#### **Fixed Assets – K25,987,937**

My review of fixed assets revealed the following discrepancies:

- I noted a variance of K1,046,885 relating to fixed assets additions between *Note 8* to the financial statement of K2,979,534 and the Fixed Assets Register (FAR) of K1,572,1649;
- there was no reviewer (a senior officer) apart from the officer who prepares and maintains the Fixed Assets Register for check and balances;
- most of the fixed assets purchased were not properly updated in the Fixed Assets Register in terms of values, dates, assets numbers and details of custodian;
- there was no assets management policy in place that would contain procedures relating to the acquisition, disposal and usage of assets;
- forty (40) computers purchased at a cost of K164,230 were not captured in the Fixed Assets Register; and
- during my physical verification exercise, I noted that the Service owned approximately twelve (12) institutional properties located in various suburbs of Port Moresby excluding other regional offices. However, I was not able to determine the proper valuation of properties including land which is yet to be updated in the Fixed Assets Register.

As a result, I was unable to place any reliance on the effectiveness of the internal controls surrounding the management of the fixed assets. Consequently, I am unable to conclude on the valuation, correctness and existence of the fixed assets amounting to K25,987,937 disclosed in the financial statements.

### **Lack of Proper Acquittal of Travel Advances**

Travel and subsistence payments amounting to K2,321,486 were not properly acquitted by the concerned staff of the Service during the year. I also observed that Travel Advances Register was not properly maintained. It is a requirement under the *Public Finances (Management) Act 1995* and the *Financial Management Manual Part 20 paragraph 11.2* that cash advanced to officers travelling overseas on official duty must acquit travel advances within fourteen (14) days of return from duty travel. At the same time *Part 20 paragraph 12.10* of the Manual stipulates that advances to officers for domestic duty travels to be acquitted within seven (7) days of return from duty travel by submitting an acquittal form. As a result of the above, the Service had breached the *PFMA* and *Financial Manual*.

## **43.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Service had submitted its financial statements for the year ended 31 December 2017 and arrangements were being made to commence the audit shortly.

The Service had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **44. PAPUA NEW GUINEA FOREST AUTHORITY**

### **44.1 INTRODUCTION**

#### **44.1.1 Legislation**

The Papua New Guinea Forest Authority was established under the *Forestry Act 1991* which came into operation on 25 June 1992.

The Authority was formed by the amalgamation of the Department of Forests, the Forest Industries Council, the Provincial Divisions of Forestry, the Forestry College in Bulolo, the Timber Industry Training College and the Research Institute in Lae.

With the establishment of the Authority the following Acts were repealed: the *Forest Industries Council Act (Chapter 215)*; the *Forestry Act (Chapter 216)*; and the *Forestry (Private Dealings) Act (Chapter 217)*.

#### **44.1.2 Objective of the Authority**

The prime objective of the Authority is to provide for and to give effect to the National goals and the directive principles regarding:

- Management, development and protection of the Nation's forest resources and environment in such a way as to conserve and renew them as an asset for succeeding generations;
- Maximisation of PNG's participation in the wise use and development of the forest resources as a renewable asset;
- Utilisation of the Nation's forest resources to achieve economic growth, employment creation and increased "downstream" processing of the forest resources;
- Encouragement of scientific study and research into forest resources so as to contribute towards a sound ecological balance, consistent with the national development objectives;
- Increased acquisition and dissemination of skills, knowledge and information in forestry through education and training; and
- Pursuit of effective strategies, including improved administrative and legal machinery, for managing forest resources and the management of National, Provincial and Local interests.

### 44.1.3 Functions of the Authority

The principal functions of the Authority are to:

- provide advice to the Minister on forest policies and legislation pertaining to forestry matters;
- prepare and review the National Forest Plan and recommend it to the NEC for approval;
- through the Managing Director, to direct and supervise the National Forest Service;
- negotiate Forest Management Agreements;
- select operators and negotiate conditions on which timber permits, timber authorities and licences may be granted in accordance with the provisions of the *Forestry Act*;
- appoint and supervise the State Marketing Agency;
- subject to the *Customs Act, Customs Tariff Act and Exports (Control and Valuation) Act* to control and regulate the export of forest produce;
- oversee the administration and enforcement of the *Forestry Act* and any other legislation pertaining to forestry matters, and of such forestry policy as approved by the NEC;
- undertake the evaluation and registration of persons desiring to participate in any aspect of the forestry industry;
- act as agent for the State, as required, in relation to any international agreement relating to forestry matters; and
- carry out such other functions necessary to achieve its objectives or given to it under the Act or other relevant law.

## 44.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the years ended 31 December 2013 and 2014 were in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2015, 2016, 2017 and 2018 for my inspection and audit.

## **45. PAPUA NEW GUINEA IMMIGRATION AND CITIZENSHIP SERVICE AUTHORITY**

### **45.1 INTRODUCTION**

#### **45.1.1 Legislation**

The *Papua New Guinea Immigration and Citizenship Service Authority* was established under the *Immigration and Citizenship Service Act 2010*. This Act came into operation on 9 July 2010.

Under this Act, all assets used for the Authority services (other than land held by the State) which immediately before the coming into operation of this Act, were held by the Department of Foreign Affairs and Trade and which, by agreement between the Departmental Head of that Department and the Authority are necessary to be transferred to the Authority for the purposes of the Authority are on that coming into operation, transferred to and become assets of the Authority.

#### **45.1.2 Objectives of the Authority**

The objectives of the Authority are the following:

- the management, development and protection of the nation's interest in so far as the security of the nation is protected;
- elimination of corruption and increase in accountability;
- provision of a more flexible operational working environment;
- increased operational and management efficiency in financial management, accountability and performance management;
- provision of a mechanism for the achievement of best practice;
- provision of financial and administrative autonomy;
- increased levels of client service delivery;
- encouragement of study and research in areas which will contribute to the protection and security of the nation;
- increased acquisition and dissemination of skill, knowledge and information in immigration and citizenship through education and training;
- pursuit of effective strategies including improved administrative and legal machinery for managing immigration, citizenship and passport matters; and
- ensure the Authority retains its primacy and leadership role with regard to the provision of effective border control and security through the effective management of entry and stay of people in PNG.

### 45.1.3 Functions of the Authority

The functions of the Authority are to:

- perform the functions and exercise the powers conferred on an authorised person or an officer under the *Migration Act (Chapter 16)* or the *Passports Act (Chapter 17)*;
- assist the Minister responsible for the administration of the *Migration Act (Chapter 16)* and *Passport Act (Chapter 17)* in the performance of their functions under those Acts respectively;
- assist the Minister responsible for citizenship in the performance of his/her functions under Part IV of the *Constitution* and the *Citizenship Act (Chapter 12)*;
- collect fees, penalties and other revenue authorised under the *Migration Act (Chapter 16)*, *Passport Act (Chapter 17)* and *Citizenship Act (Chapter 12)*;
- administer the APEC Business Travel Card Scheme under the *Migration Act (Chapter 16)*;
- collect, monitor, secure and maintain information and technological systems to enable fully integrated and supported immigration, citizenship and passport operations;
- undertake development of legislation and policy to support the operations of the Authority and the effective administration of the *Migration Act (Chapter 16)*, *Passport Act (Chapter 17)* and the *Citizenship Act (Chapter 12)*;
- advise the Minister on policy issues which relate to this Act and the effective administration of the *Migration Act (Chapter 16)*, *Passport Act (Chapter 17)* and the *Citizenship Act (Chapter 12)*;
- exercise and carry out such functions and powers and perform all duties which under any other written law are or may be or become vested in the Authority or delegated to the Authority by this Act or any other law; and
- carry out such other duties as are necessary, supplementary, incidental to or consequential to achieve the objectives or the discharge of its functions under this Act.

## 45.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 45.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2016 and 2017 were issued on 30 July 2018 and 13 May 2019 respectively. The 2016 report contained a Qualified Opinion and 2017 report contained an Unqualified Opinion.

## 45.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2016 and 2017 were issued on 30 July 2018 and 13 May 2019 respectively. The reports contained similar observations, hence, only the 2017 comments is reproduced:

### **Stock take and Asset Verification**

During my review, I noted that there were no proper asset numbers or tagging done for all the assets in the custody of the Authority. In the absence of proper labelling of assets, the identification of fixed assets under the Authority's custody was difficult for my verification. I further noted that no stock-take exercise was carried out during the year to verify assets' conditions, existence and usage. The Authority in its response stated that stock take exercise plan was under way and this exercise would include identification and verification of assets and ensuring assets are properly coded with serial numbers which can be easily identified.

### **Non-Acquittal of Travel Advances**

My review of travel and subsistence expenses revealed that the Travel Advance Register provided for my verification was incomplete. I noted that the Travel Advance Acquittal file provided for audit lacked proper acquittal documents such as the receipts/invoices, boarding passes and other relevant supporting documents. As a result, a total of K338,574 paid for travel and subsistence during the year were not acquitted. Consequently, the Authority had not complied with the *Financial Management Manual (Part 20)*.

I drew Management's attention to the requirements of the *Financial Management Manual paragraph 11 and 12 of Part 20* for compliance. The Management responded that they would ensure all travel expenses were fully acquitted and filed.

## 45.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **46. PAPUA NEW GUINEA INSTITUTE OF MEDICAL RESEARCH**

### **46.1 INTRODUCTION**

#### **46.1.1 Legislation**

The Papua New Guinea Institute of Medical Research was established by the *Institute of Medical Research Act (Chapter 166)* on 1 January 1980.

#### **46.1.2 Functions of the Institute**

The primary functions of the Institute are to conduct and foster research into any branch of medical science or biology, anthropological and sociological aspects of health, and matters relating to public health generally, that are of relevance to PNG.

### **46.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **46.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the years ended 31 December 2016 and 2017 were issued on 25 February 2019. The reports contained similar Qualified Opinions, hence, only the 2017 report is reproduced.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Fixed Assets Variance**

I noted that the Institute had not maintained a proper Fixed Assets Register. The Register was not updated and did not include details for the asset classes for Boat & MB-F Equipment disclosed in the financial statements. Disposals of assets and write-offs done during the year were not adjusted in the Register, thus the balances did not reconcile to the financial statements.

In addition, the closing balance in the Fixed Asset Register did not reconcile with the balance disclosed in the financial statements that resulted in a material variance of K1,271,454. As such, I was unable to determine the accuracy, condition and existence of assets totalling K40,064,471 disclosed by way of notes in the financial statements.

#### **QUALIFIED OPINION**

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



- (a) the financial statements of the Institute are based on proper accounts and records;
- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Institute as at 31 December 2017 and the results of its financial operations for the year then ended.”

#### 46.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the Institute for the years ended 31 December 2016 and 2017 were issued on 25 February 2019. The reports contained similar observations, hence, only the 2017 comments are reproduced:

##### Internal Control Weaknesses

During my review of the internal control and work processes of various donor funded projects, I noted that responsible officers were working in isolation. Further, I noted that much of the transactions that were posted to various accounts were not properly monitored and checked at the time of posting and randomly checked to ensure that the transactions were posted to their correct respective accounts. As a result, I noted the following discrepancies:

- Transactions were posted to wrong accounts (mispostings).
- CASS Net Salaries clearing account was not reconciled and had substantial uncleared balances.
- Various reimbursable project costs incurred by Finance and recorded under CASS Accounts Receivable clearing account on behalf of different donor funded projects were not monitored and cleared through the Accounts Receivable account and on some instances wrongly posted to the income accounts when the costs were reimbursed.
- The Internal Audit section was not properly resourced to effectively carry out its tasks or work programs to assist mitigate possible risks within the Institute.

I recommended to the management that a financial guide line/chart of accounts be drafted and made available to staff who are responsible for posting. Further, regular meetings should be organized by the Finance Section with all officers responsible for keeping various bank accounts and posting transactions. The Institute should assign officers with skills and experience to perform necessary accounting entries to clear the accounts.

*Management concurred with my comments and advised that the recommendations would be fully implemented.*

### **Income Tax Payable**

My review of the income tax liability of the Institute revealed that salaries and wages tax withheld totaled K2,394,603.16 at balance date was not paid to the Internal Revenue Commission as required under the *Income Tax Act 1959*.

I brought this to the attention of management and the possible additional tax penalties imposed on the Institute for not complying with the *Income Tax Act 1959*.

The management concurred with my comments and stated that *the delay in timely meeting of the tax obligation has been largely due to untimely release of recurrent funds and not in full installment from the National Department of Finance*.

### **46.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Institute had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **47. PAPUA NEW GUINEA INSTITUTE OF PUBLIC ADMINISTRATION**

### **47.1 INTRODUCTION**

#### **47.1.1 Legislation**

The Papua New Guinea Institute of Public Administration was established in 1993 under the *Papua New Guinea Institute of Public Administration Act 1993*.

#### **47.1.2 Functions of the Institute**

The functions of the Institute are to plan, organise, conduct and assess a wide range of practices and relevant training programmes in the Country and, if applicable, in the South Pacific Region and to undertake relevant research and consultancies on issues and problems of management and administration and to act as a centre for collection, storage, retrieval and dissemination of information.

### **47.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the audit report of the Institute for the year ended 31 December 2014 was under preparation.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the years ended 31 December 2015, 2016 and 2017 had been completed and the management responses were being awaited to finalise the audit reports.

The financial statements for the year ended 31 December 2018 had not been submitted by the Institute for my inspection and audit.

## **48. PAPUA NEW GUINEA MARITIME COLLEGE**

### **48.1 INTRODUCTION**

#### **48.1.1 Legislation**

The Papua New Guinea Maritime College was established under the *Papua New Guinea Maritime College Act (Chapter 355)*. It was previously known as the Nautical Training Institute. However, by virtue of the *Nautical Training Institute (Change of Name) Act 1985* which became effective on 25 July 1985, the names of Nautical Training Institute and *Nautical Training Institute Act* were changed to PNG Maritime College and *PNG Maritime College Act* respectively.

#### **48.1.2 Functions of the College**

The principal functions of the College are to provide training and other instructional facilities for the theoretical and practical training of persons in maritime skills and any other objects incidental or ancillary thereto.

### **48.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **48.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the College for the years ended 31 December 2015 and 2016 were issued on 7 August 2018 and for the year ended 31 December 2017 was issued on 16 January 2019. The reports contained similar Qualified Opinions, hence, only the 2017 report is reproduced.

#### **“BASIS FOR QUALIFIED OPINION**

##### **Other Debtors – K290,542**

Included in the above other debtors were rental receivables from the government store of K104,177. I noted during my review that these debtors were carried forward from prior years and had no supporting records and documents to substantiate the debt. As a result, I was unable to perform the necessary audit procedures to satisfy myself on the account balance. Consequently, I was unable to comment as to whether the account balance has been fairly stated in the financial statements at year end.

##### **Prepayments – K152,001**

The prepayments of accommodation rentals included in the above balance was K22,000 at year end. During my review, I noted that these receivables were carried forward from prior years and had no substantiating records and documents as proof of debt.

As a result, I was unable to perform the necessary audit procedures to satisfy myself on the account balance. Consequently, I was unable to comment as to whether the account balance has been fairly stated in the financial statements at year end.

#### **Student Tuition Fee Deposit – K291,572**

I noted during my review that the College did not maintain proper reconciliations for tuition fees received to recognise the unearned income. Further, I was not provided with a reconciliation listing to substantiate the balance disclosed in the financial statements at the year end. As a result, I was unable to perform the necessary audit procedures to satisfy myself on the account balance. Consequently, I was unable to state whether the 2017 student tuition fee deposit account has been fairly stated at year end.

#### **Valuation of Non-Current Assets – K10,216,546**

I noted that since the establishment of the College there was no valuation exercise carried out on its properties and other assets totaling K10,216,546 by an independent valuer to determine the fair values of the College's assets. Further, I noted that the College's Assets recorded in the Fixed Assets Register did not have identification numbers or labels assigned to them. Without proper labelling of assets, the identification of fixed assets under the College's custody was difficult for my verification. Further, the College has not carried out any stocktake on all its fixed assets over the years. In addition, I was unable to carry out physical inspection to confirm certain fixed assets against the records to verify their existence. As a result, I was unable to comment on the existence and valuation of fixed assets disclosed in the financial statements.

#### **QUALIFIED OPINION**

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

- a) the financial statements are based on proper accounts and records; and
- b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the College for the year ended 31 December 2017 and the results of its financial operations and cash flows for the year then ended.”

## 48.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the financial statements of the College for the years ended 31 December 2015 and 2016 were issued on 7 August 2018 and for the year ended 31 December 2017 was issued on 16 January 2019. The reports contained similar comments, hence, only the 2017 is reproduced:

### **Title Deeds of College Properties**

During my review of the Land & Buildings, I noted that the College had no valid title deeds in place or was unable to locate the deeds for my verification. As a result, I was unable to verify the College's ownership of eleven (11) properties.

I brought the above issue to the attention of the College Management and I was advised that communication had commenced with various stakeholders to secure the title and would continue until the matter is being resolved.

### **Withholding Taxes (Salary Taxes) - K876,131**

During my examination of the Salary Account, I noted that monthly group taxes for prior years (2012 & 2013) were not remitted to Internal Revenue Commission (IRC) on time as required by *Section 299G* of the *Income Tax Act 1959*. The employer is required to remit salary and wages taxes to IRC within 7 days after month-end. Failure to remit salary and wages taxes on time will result in penalty of 20% for outstanding tax payable and an additional interest of 20% per annum on the amount outstanding. I noted that the College has been carrying forward these balances without remitting them on a timely basis as required under the Act.

I brought the above issue to the attention of the Management and I was advised that:

*“Group tax liabilities carried forward is an ongoing concern. The current Management has been addressing the issue since 2014 accumulated by failure to remit to IRC as a PAYE. Discussions with IRC at the moment is to offset assessed GST refunds against group tax liability. The Management continue to strive to make savings from internally generated income to gradually settle the outstanding liabilities. A genuine effort has been put into this matter and will continue into the future.”*

### **Travel & Subsistence – K79,236**

My review of the travel & subsistence expenses of K79,236 revealed that the College had not maintained a Travel Advance/Acquittal Register for all duty travels and related expenses. Thus, some of the duty travels taken were not acquitted. The *Public Finance Management Manual (Part 20)* stipulates that the advances must be acquitted within 7 and 14 days of Domestic and International Travels respectively.

I recommended the Management to ensure proper compliance with the requirements of *Public Finances Management Act* and the *Financial Management Manual and Instructions* by taking necessary steps to make sure travels are registered and travel expenses are acquitted in a timely manner as required. I drew this matter to the Management and they responded as follows:

*“The Management agrees there is a bit of tidying up to do so a proper registry is put in place to account and capture all travels as a matter of priority.”*

### **Personnel Emoluments**

During my review of staff personnel files, I noted that the employment contract for the Principal of the College was not signed. As a result, I was unable to substantiate and validate the salary and allowances paid to the Principal. I brought this to the attention of the Management in my previous audits and followed up during the current audit as well.

I brought the matter to the attention of the Management and I was advised as follows:

*“The Principal’s contract is the responsibility of the Board to ensure that he has a valid contract in place in concurrence of his duties. The matter has been followed up by the Management with no success. However, the management is still doing its best to ensure DPM provides the Principal a valid contract soon.”*

## **48.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the College for the year ended 31 December 2018 had been completed and the audit reports had been finalised and expected to be issued shortly.

## **49. PAPUA NEW GUINEA NATIONAL INSTITUTE OF STANDARDS AND INDUSTRIAL TECHNOLOGY**

### **49.1 INTRODUCTION**

#### **49.1.1 Legislation**

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 came into operation on 3 January 1994.

The *National Standards Act (Chapter 378)* and the *National Technical Standards Act (Chapter 379)* were repealed, and all funds standing to the credit of and on accounts operated under the authority of the repealed acts and all assets and liabilities owned or held by the bodies established under the repealed acts were transferred to and became the assets and liabilities of the Institute on the commencement of the new Act.

#### **49.1.2 Objectives of the Institute**

The objectives of the Institute are: to carry out scientific and technological research and to develop a National Standards system; to co-operate with international organisations of measurement and technical standards; to promote and undertake industrial integrated standardisation and quality assurance; and to enter into any agreement both within and outside PNG to further the objectives and functions of the Institute.

#### **49.1.3 Functions of the Institute**

The main functions of the Institute are to:

- safeguard PNG against the dumping and supply of unsafe, unhealthy and inferior or substandard products;
- establish and co-ordinate the National Standardisation system;
- provide education, training and industrial extension and consultative services to assist industries;
- promote public and industrial welfare, health and safety;
- recognise as testing authorities, bodies and institutions;
- establish a National Certification System of conformity;
- assist industries overcome technical barriers on its products and services to international trade; and
- assist industries to produce quality products and services.



## 49.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 49.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Institute for the year ended 31 December 2016 was issued on 10 December 2018. The report contained a Qualified Opinion.

#### “BASIS FOR QUALIFIED OPINION

##### **Debtors – K37,949**

During my review of the Debtors, I observed that the Institute disclosed its trade debtors as K37,949 at 31 December 2016. However, the Institute had not compiled a trade debtors listing to record and monitor unpaid invoices. Further, accounts receivable ageing report and accounts receivable reconciliations were not maintained by the Institute. As a result, I was unable to state whether the debtors account had been fairly stated in the financial statements.

##### **Staff Advance – K63,718**

The Institute disclosed K63,718 as staff advance in the financial statements. During my review, I noted that the Institute had not maintained a Staff Advance Register to record and monitor advance payments and collections so as to reconcile with general ledger records. In addition, the Institute had no documented policy for advances. As a result, I was not able to verify the staff advance amount as disclosed in the financial statements.

##### **Fixed Assets – K3,024,405**

The Fixed Assets Register provided for my review was not properly maintained and updated. During my examination, I noted that the Fixed Assets Register was incomplete and did not adequately capture all the Institute’s assets including assets purchased during the year. As a result, I was not able to verify the amount as disclosed in the financial statements.

#### **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 Institute for the year ended 31 December 2016 and the results of its financial operations for the year then ended.”

## 49.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2016 was issued on 10 December 2018. The report contained the following observations:

### **Non-Submission of Financial Statements**

The Institute had not prepared and submitted its financial statements to my office before 31 March 2017 to enable me to conduct the audit within the timeframe stipulated by the *Public Finances (Management) Act 1995*. Consequently, the Institute had breached *Sections 63(2)* and *63(4)* of the *Public Finances (Management) Act 1995*.

### **Corporate Plan**

The Institute had not compiled a Corporate Plan to set clear strategic direction for its operations to achieve its objectives, sets priorities, targets and to take into account the requirements of its stakeholders. I brought this to the attention of the Management and they concurred with my observations and assured me that they have been working on the Institute's Corporate Plan.

### **Investment**

During my review, I observed that the Institute had not prepared and maintained an investment schedule to calculate and capture the interests earned and the rolled over balances. The Institute had relied entirely on the certificates and bank statements provided by the Finance Companies (First Investment Finance Limited and Micro Finance).

Furthermore, I was not provided with the lodgement certificate to confirm the movements of both the 180 days term with First Investment Finance Limited and 30 days term with Micro Finance Limited. As a result, I had not performed any reconciliation to ascertain the existence, validity and completeness of the recorded interest income and investment balance at each maturity date at year-end. I recommended the Institute to prepare and maintain proper IBD Investment Schedule to keep track of the movements of the IBD investments.

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

*"We fully concur with your observations and are now working on the recommendation to improve the management control of the Institute's investments."*

### **Fixed Assets Register**

During my review of the Fixed Assets Register, I noted that the Institute had not maintained a proper Fixed Assets Register for all the assets under its custody and control. The Fixed Assets Register provided for my review was incomplete and did not contain sufficient information to enable me to determine the value of individual assets. In addition, there was no year-end stock take of these assets. As a result, I was unable to determine the fair value, condition and location of the fixed assets held under the custody of the Institute as at 31 December 2016.

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

*“The Management will work on the recommendation provided by me and also to do a physical audit of the fixed assets and update the Fixed Assets Register.”*

### **Fixed Assets Disposals**

There were no records for fixed assets disposals in the Fixed Assets Register, although there were reversal entries and entry passed for disposals amounted to K61,836. There were no supporting documents to substantiate the validity of assets being disposed by the Institute. There were fixed assets with zero written down values recorded and maintained in the Fixed Assets Register. As a result, I was unable to substantiate the assets disposals amounting to K61,836 as disclosed in the financial statements at year end.

I brought this observation to the Management of the Institute and they responded as follows:

*“The Management has acknowledged the observation and have directed the finance section to do physical inspection on all fixed assets and identify the assets that are to be disposed. A disposal report will be furnished to the Institute Management for endorsement to the Council to seek approval for disposal. Therefore, proper accounting treatment will be applied on the disposals.”*

### **Travel Advance / Acquittals Register**

The Institute had not maintained a Travel Advance/Acquittals Register to keep proper records of acquittals for all duty travels and related expenses. The Institute did not comply with the *Public Finances (Management) Act 1995* which governs the management and use of public funds. It is a requirement under the *Financial Management Manual Part 20 paragraph 11.2* that cash advance to officers travelling overseas on official duty to acquit travel advances within 14 days of return from duty travel. While *Part 20 paragraph 12.10* of the Manual requires that advances to officers for domestic duty travel to be acquitted within 7 days of return from duty travel. Thus, I was unable to trace and authenticate advances and travel expenses against its acquittals.

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

*“We take note of your recommendation and the management is taking its stance to address the issue by way of developing an Acquittal Register to record and monitor travel advances and also a written internal memo to all staff instructing them to adhere to the recommendation.”*

### **Personnel Emoluments**

My review of the personnel files for employees of the Institute revealed that staff personnel records were not updated on a regular basis. Information such as salaries and wages tax declarations, birth certificates, salary history cards, leave records and other correspondences relating to salaries variations were not updated on a timely basis.

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

*“We take note of the issues raised and will ensure that all Staff personnel files are properly updated and maintained in terms of salary history cards and signed copies of the Tax Declaration Forms and Marriage and Birth Certificates for all the staff and their dependents.”*

### **Concept Payroll**

During my review of salaries and allowances of the Institute, I noted that the salaries were paid through the concept payroll from the Department of Finance through the grant appropriation for payroll. However, there was no proper monitoring performed by way of reconciliation by the Institute against the concept payroll system. As a result, the staff contract of employment salaries differ from salaries and allowances paid through the concept payroll system. I brought this to the attention of the Management and they concurred with my observations and assured me that they would take corrective action to address the issue.

## **49.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Institute had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit, despite several reminders.

## **50. PAPUA NEW GUINEA SPORTS FOUNDATION**

### **50.1 INTRODUCTION**

#### **50.1.1 Legislation**

The Papua New Guinea Sports Foundation was established by the *Papua New Guinea Sports Foundation Act 2005*. This Act was certified on 8 August 2006 and became operational on the same date and replaced the *Papua New Guinea Sports Commission Act 1992*.

Under this Act, all assets held or occupied by and all liabilities and obligations of the Papua New Guinea Sports Commission prior to the operation of this Act were transferred to and became assets and liabilities and obligations of the Foundation at commencement.

#### **50.1.2 Objectives of the Foundation**

The principal objectives of the Foundation are: to encourage the private sector to contribute to the funding of sports to supplement assistance by the government of Papua New Guinea; to provide leadership in the development of Papua New Guinea's performance in sports; and to encourage increased participation and '*Sport for All*' by Papua New Guineans in sports.

#### **50.1.3 Functions of the Foundation**

The principal functions of the Foundation are to:

- advise the Minister in relation to the development of sports;
- co-ordinate activities in Papua New Guinea for the development of sports and to develop and implement programs to promote equality of access to and participation in sports by all Papua New Guineans;
- develop and implement programs for the recognition and development of persons who excel, or who have the potential to excel in sports and persons who have the potential to achieve standards of excellence as sports coaches, umpires, referees or officials essential to the conduct of sports;
- initiate, encourage and facilitate research and development in relation to sports;
- undertake research and development related to sports science and sports medicine and to provide sports medicine services and sports science services to persons participating in programs of the Foundation;
- establish, manage, develop and maintain facilities for the purposes of the Foundation;

- collect and distribute information and provide advice on matters related to the activities of the Foundation;
- fostering co-operation in sports between Papua New Guinea and other countries and to provide access to persons from other countries to the resources, services and facilities of the Foundation;
- raise money through the National Sports Trust or by other means for the purposes of the Foundation and to administer and expend money appropriated by the Parliament or raised in accordance with and for the purpose of the Foundation;
- consult and co-operate with appropriate authorities of the National Government or the Provinces and Local-level Governments and with other persons, associations and organisations on matters related to the activities of the Foundation;
- provide advice on matters related to sports to the Papua New Guinea National Olympic Committee or other persons, bodies or associations; and
- co-operate with districts, provincial, national and international sporting organisations in aiming to foster a sporting environment that is free from the unsanctioned use of performance enhancing drugs and doping methods.

## 50.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 50.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Foundation's financial statements for the years ended 31 December 2014 and 2015 were issued on 30 April 2019. The reports contained similar Disclaimer of Opinions, hence, only the 2015 report is reproduced.

#### “BASIS FOR DISCLAIMER OF OPINION

##### Scope Limitation on Internal Revenue – K1,332,505

The Foundation has disclosed total internal revenue of K1,332,505 for the year ended 31 December 2015. These revenue sources were from Head Office in Port Moresby of K94,907, Goroka center of K878,574 and Lae center of K359,024. However, my review revealed that apart from NSI Goroka, there were no proper and relevant supporting source documents such as receipt books, cash register books, invoices, and deposits books maintained at Port Moresby Head Office and Lae Office to verify the respective amounts disclosed.

As a result, I was unable to perform the necessary audit procedures to ascertain the completeness, cut-off and accuracy of the Internal Revenue disclosed at K1,332,505 for the year under review.

### **Scope Limitation on Goods and Services Expenditure – K6,369,093**

I observed that the Foundation has disclosed K6,369,093 as Goods & Services expenditure during the year under review. However, I observed that the cash book maintained in excel spread sheet was incomplete and it did not have an account code and classification for each expenditure line items disclosed in the Financial Statements. Consequently, I was unable to perform necessary audit procedures to verify the completeness, accuracy and classification of expenditures disclosed in the financial statements for the year ended 31 December 2015.

### **Fixed Assets – K57,088,873**

I noted that the Foundation has maintained a Fixed Asset Register (FAR) on excel spread sheet at Port Moresby Head Office. However, I observed that the Fixed Assets Register was incomplete and was not properly maintained, reviewed and updated. As a result, I was unable to ascertain the accuracy, existence, valuation and completeness of the fixed assets balance disclosed as K57,088,873 at 31 December 2015. Consequently, I was unable to place any reliance on the control environment surrounding the maintenance of Fixed Assets Register.

### **Scope Limitation on Sports Program Expenditures – K10,731,462**

During the year under review, the Foundation has disclosed K10,731,462 as Sports Program expenditure in the Income Statement. These funds were drawn down from the PIP funds to carry out its objectives as stated in the constitution. However, I was not provided with proper and detailed schedules of the total amount disclosed in the financial statements to enable me to perform necessary audit procedures during the course of the audit. As a result, I was unable to comment on the authenticity, completeness and accuracy of the expenditure totaling K10,731,462 disclosed in the financial statements.

### **DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for the Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient audit evidence and accordingly, I am unable to express an opinion on the financial statements of the Papua New Guinea Sports Foundation for the year ended 31 December 2015.”

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

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Foundation for the years ended 31 December 2014 and 2015 were issued on 30 April 2019. The reports contained similar significant matters, hence, only the 2015 report is reproduced:

## **Non-Submission of Financial Statements**

The Foundation had not prepared and submitted its financial statements for the year ended 31 December 2015, to enable me to conduct the audit within the timeframe stipulated by the Act. Consequently, the Foundation has breached *Sections 63 (2) and 63 (4) of the Public Finances (Management) Act 1995*.

## **Accuracy, Completeness and Classification of Manual (excel) Cash Books**

In my 2014 Internal Control Review (ICR) covering the years from 2005-2013, I highlighted to the management to introduce a proper accounting system to record all its daily transactions. However, I noted that the management had not implemented my recommendations. The Foundation still maintained records manually on excel worksheet for each bank account as well as for Regional Centers.

However, the cash books maintained were incomplete and unreliable as it did not have opening balances for balance sheet items, account codes and account classifications from which audit can trace the respective line items to the disclosed figures in the financial statements. Also, there were no journal entries passed for accruals, provisions, and depreciations as all entries were recorded as cash basis transactions. Further, there was no trial balance from which the financial statements for 2015 was produced.

I brought these issues to the Foundations Management and the Management responded to my queries as follows:

*“Accounting officers at that relevant time were not qualified in the respective accounting roles. The Excel Cash Books maintained were basically payment registers whilst awaiting the implementation of the peach tree accounting software. When the software was installed and training programs prepared, its implementation was further interrupted by the 2014 PNG Games. Other compounding issues were that the software was not compatible with Telikom Server as we were operating from Telikom PNG at that time.”*

## **Operational and Accounting Procedural Manuals**

During my prior year internal control review, I recommended the Foundation to establish an operational and accounting procedures manual and policies which would help and guide them to strengthen their internal controls on their daily operations. However, during the course of this audit for the year under review, I noted that the Foundation had not implemented my recommendation.

I brought this observation to the Foundation’s Management and they responded to my observation as follows:



*“The drafting of the Operational and Accounting Procedural Manual commenced in 2014 but could not be completed during that period due to lack of manpower capacity within our Finance and Administration Branch.”*

### **Cash at Bank**

My review and examination of the bank reconciliations for various bank accounts for the Foundation revealed that the reconciliations were not prepared, reviewed and verified by concerned officers of the Foundation on a timely basis in 2015. I was unable to verify if the function of bank reconciliations was segregated.

I drew this issue to the Management of the Foundation and they responded as follows:

*“We admit lack of coordination and control over the administration of bank reconciliation. Improvements were made in the last three (3) years since 2016 with monthly bank reconciliations prepared, revised and signed off by appropriate accountable officers.”*

### **Tax Remittance**

During my review, I noted that the Foundation had disclosed GST separately as GST receivable at K10,160,272 and GST payable at K214,717 in the financial statements for the year under review. However, I advised the Foundation’s Management to reconcile the GST inputs against the GST outputs and to disclose only the difference in the financial statements as either payable or receivable. I also recommended that the Management of the Foundation to liaise with Internal Revenue Commission (IRC) to agree on the net payables/receivables for settlement.

I drew this issue to the attention of the Foundation’s Management and they responded as follows:

*“Management will take note of this recommendation and will liaise with IRC to resolve this matter.”*

## **50.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Foundation for the years ended 31 December 2016, 2017 and 2018 had not been submitted for my inspection and audit.

## **51. PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY**

### **51.1 INTRODUCTION**

#### **51.1.1 Legislation and Objectives of the University**

The Papua New Guinea University of Technology was established under the *University of Technology Act (Chapter 170)*. The University's aims are to provide tertiary educational facilities and to produce qualified men and women to play an important part in the development of Papua New Guinea.

#### **51.1.2 Functions of the University**

The University's principal functions are to encourage and provide facilities for study, education and training of technological subjects and branches of learning at tertiary level, and to assist in research and the practical application of technological branches of learning.

#### **51.1.3 Subsidiaries of the University**

The University has two subsidiary companies; *National Analytical and Testing Services Limited* and *Unitech Development and Consultancy Company Limited* which were incorporated under the *Companies Act*.

Comments in relation to the subsidiary Companies are contained in paragraphs 51A and 51B of this Report respectively.

### **51.2 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 2017 was in progress.

The University had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **51A. NATIONAL ANALYTICAL AND TESTING SERVICES LIMITED (Subsidiary of University of Technology)**

### **51A.1 INTRODUCTION**

The National Analytical and Testing Services Limited was initially incorporated as Champion No. 67 Limited on 10 March 2011. However, on 24 March 2011 the former Company name (Champion No. 67 Limited) was changed to what is now the National Analytical and Testing Services Limited.

The shareholders of the Company are Unitech Development and Consultancy Limited and Star Mountains Institute of Technology Limited, each holding 61% and 39% of the total issued shares respectively.

#### **51A.1.1 Functions of the Company**

The functions of the Company are to provide analytical, pathological and mineral testing services:

- analytical testing including tests for food, water, soil, mining or industrial waste;
- pathology testing relating to test for human diseases; and
- mineral (geo) testing involving testing for mineral compositions.

### **51A.2 STATUS OF FINANCIAL STATEMENTS**

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

The Company had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015, 2016, 2017 and 2018 for my inspection and audit.

## **51B. UNITECH DEVELOPMENT AND CONSULTANCY COMPANY LIMITED (Subsidiary of University of Technology)**

### **51B.1 INTRODUCTION**

Unitech Development and Consultancy Limited is a Company incorporated under the *Companies Act*.

#### **51B.1.1 Functions of the Company**

The primary function of the Company is to carry on the business and activities of consultants, and to render management, industrial, commercial, financial, secretarial, public relations, industrial relations and other related services to any person, firm or corporation engaged in any business, trade or activity. The Company also carries on a business of insect farming.

### **51B.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2014, 2015, 2016, 2017 and 2018 had not been submitted for my inspection and audit.

## **52. PARLIAMENTARY MEMBERS' RETIREMENT BENEFITS FUND**

### **52.1 INTRODUCTION**

#### **52.1.1 Legislation**

The Parliamentary Members' Retirement Benefits Fund was established under the *Parliamentary Members' Retirement Benefits Fund Act 1997* which came into operation on 16 July 1997.

#### **52.1.2 Objectives of the Fund**

The objectives of the Fund are to provide pensions and retirement benefits for Members and former Members of Parliament and the former House of Assembly and to provide benefits to dependant spouses and juvenile dependants. This Act repealed the *Parliamentary Members' Retirement Benefits Act* which came into operation in 1982.

### **52.2 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 2017 had been completed and the results were being evaluated.

The Fund had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **53. PUBLIC CURATOR OF PAPUA NEW GUINEA**

### **53.1 INTRODUCTION**

#### **53.1.1 Legislation**

The Office of the Public Curator of Papua New Guinea was established under the *Public Curator Act (Chapter 81)*.

#### **53.1.2 Functions of the Public Curator**

The main functions of the Public Curator are to act as an administrator of estates; an executor appointed under a will by a member of the public; and/or an official trustee.

### **53.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Public Curator's Office for the year ended 31 December 2014 had been completed and management responses were being awaited to finalise the audit reports.

The financial statements for the years ended 31 December 2015, 2016 and 2017 had been submitted for my inspection and audit and arrangements were being made to commence the audit shortly.

The financial statements for the year ended 31 December 2018 had not been submitted by the Public Curator's Office for my inspection and audit.

## **54. ROAD TRAFFIC AUTHORITY (Formerly National Road Safety Council)**

### **54.1 INTRODUCTION**

#### **54.1.1 Legislation**

The Road Traffic Authority (formerly National Road Safety Council) was established under the *Road Traffic Authority Act 2014*. This Act was certified on 5 August 2014 thereby repealing the *National Road Safety Act 1997*. The Authority only commenced its operational activities in 2017.

Under the *Road Traffic Authority Act 2014* all assets, liabilities, rights, entitlements and choice-in action of the National Road Safety Council and the Land Transport Board which related to the functions of the Council were transferred to the Authority upon the commencement of this Act.

#### **54.1.2 Objective of the Authority**

The objective of the Authority is to manage and administer the regulation, safety and efficient use of land transport throughout Papua New Guinea.

#### **54.1.3 Functions of the Authority**

The functions of the Authority are to:

- establish, administer and enforce regulatory requirements for land transport in Papua New Guinea, including setting fees and charges for services provided by the Authority;
- within the resources available to the Authority, provide for the safe and efficient use of land transport in Papua New Guinea;
- assist, advise and work cooperatively with the Police Force, Provinces and other organisations in relation to land transport regulatory matters, road safety and the efficient use of land transport;
- monitor the road safety performance of the public road network and to develop and implement action plans for improvements;
- manage data for activities within the land transport system including maintaining and preserving records, registers and documents in relation to the activities;
- undertake investigation into land transport accidents, incidents and report to the Minister and public as the findings of such investigations;
- promote and conduct research into land transport regulatory matters and road safety;

- monitor and evaluate the effectiveness of programs and activities concerning land transports regulatory matters and road safety;
- promote and conduct educational and awareness programs to stimulate compliance with land transport regulatory requirements and road safety;
- advise the Minister on all functions specified in this section;
- perform other functions as are given to the Authority under this Act, the regulations, the rules or any other law; and
- do all things incidental, consequential or convenient in the exercise of the Authority's functions and powers.

## 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* on the Authority's financial statements for the year ended 31 December 2016 was issued on 4 February 2019. The report did not contain any qualification.

### 54.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8 (2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2016 was issued on 4 February 2019. The report contained the following matters:

#### **Fixed Assets Management**

The Authority had not properly maintained and updated its Fixed Assets Register in 2016. The absence of a proper and updated Fixed Assets Register exposed the Authority to high risk of losing its properties. I recommended the Authority to ensure that the Fixed Assets Register was properly maintained and updated to ensure ownership and control of assets.

I drew this observation to the attention of the Management of the Authority and they responded to my observation as follows:

*"We have instructed the assets officer to update our Fixed Assets Register and is currently confirmed up to date. We also assigned a senior officer to maintain and update the Register on a regular basis. A physical stock take will be done at the end of this year."*

#### **Traffic Infringement Notices (TIN)**

My review of the traffic infringement fines revealed that controls surrounding this area had improved over the years. However, there were instances where TIN books that were given to police officers were never returned to the Authority and some Inspectors have lost the TIN books.



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

*“The Management has conducted an investigation into the issuing, handling and retaining of TIN and receipt books and several officers have been subsequently penalized. The weaknesses in the internal control have been identified and rectified and approaches have been taken for an effective control on the TIN and receipt books. Segregation of functions and responsibilities has been reviewed all across divisions and internal controls were been recommended and has been implemented for issuing TINs to traffic offenders by inspectors and cash collections, receipting, recording, banking and bank reconciliations.”*

### **Maintenance of Staff Personnel Files**

My review of the Staff Personnel Files revealed that salary history cards, employment letters, birth/marriage certificates and salary declaration forms were not maintained for most of the files examined. In the absence of such valid documents, I was unable to verify each officer’s salary/wage and allowances paid and accruals provided for at year end.

Management since responded to my query as follows:

*“We have reviewed job descriptions of HR Division staff and most of the staff have been changed and allocated different duties and responsibilities emphasizing more on maintenance of staff files, updating staff history cards, lodging of IRC salary and wages declaration forms, salary variations and appointment records.”*

## **54.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Authority for the years ended 31 December 2017 and 2018 had not been submitted for my inspection and audit despite my reminders.

## **55. SECURITY INDUSTRIES AUTHORITY**

### **55.1 INTRODUCTION**

#### **55.1.1 Legislation**

The Security Industries Authority was established under the *Security (Protection) Industry Act 2004*. This Act came into operation on 1 March 2005. The Authority commenced its operations in April 2005.

#### **55.1.2 Functions of the Authority**

The principal functions of the Authority are to:

- grant licenses and permits under the Act;
- fix minimum standards of training applicable to holders of licenses and permits respectively;
- establish, provide or approve training institutions and facilities or permit such training institutions or facilities as it may approve, to conduct training or to be used for training for the purpose of training of persons who intend to perform security officers duties or security guard duties;
- approve any equipment other than firearms used by a holder of a license or permit or required by a customer to be installed on his premises or property;
- ensure that the holder of a license or permit operates or carries out his duties or performs his functions in accordance with the terms and conditions of the license or permit and subject to the provisions of this Act;
- formulate a Code of Conduct governing the disciplinary matters and work ethics within the Industry; and
- undertake such other functions and exercise such powers as may be conferred on it by this Act or any other law.

### **55.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **55.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the year ended 31 December 2015 was issued on 31 July 2018. The report contained a Qualified Opinion.

**“BASIS FOR QUALIFIED OPINION****Cash at Bank – K804,346**

My examination revealed that the bank reconciliations were prepared by the Manager (Finance and Administration) without any review performed by an independent person as an internal control measure to validate the amount stated in the reconciliation statements. I also noted that there were some unexplained/un-reconciled variances between the ending bank statement balances and the General Ledger Cash at Bank Balances and further there were some deposits in transit that were already taken up in the respective bank statements in the prior periods but were still taken up as deposits in transit at year end. Hence, I was unable to place reliance on controls surrounding the bank reconciliation process. As a result, I was unable to state whether the bank balances were fairly stated in the accounts.

**Fixed Assets – K244,450**

My review of the Fixed Assets Register revealed that the Register was not properly maintained and updated on a timely basis. No proper stock-take was done to confirm the existence and to determine the fair value of each asset held at year end. I also noted that assets were not numbered/tagged and no acquisition dates were provided for me to verify the depreciation calculated on assets listed in the Register. Based on the findings, I was unable to place reliance on controls surrounding the management of fixed assets. As a result, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K244,450 disclosed in the financial statements.

**Accounts Receivable – K75,647**

My examination of accounts receivable revealed that receivable balance was understated as it did not capture licence and permit fees as fees receivable from licence and permit holders who have not paid their fees on due dates. The Authority has not maintained proper debtors' records detailing the debtors, invoices and other supporting documents to validate the actual existence of debtors. As a result, I was unable to confirm the completeness and accuracy of the debtors and the fair presentation of the accounts receivables amount stated in the financial statements.

**Revenue**

I noted that the Authority has not accounted properly on accrual basis for the income for the year ended 31 December 2015. The revenue of K137,680 related to 2014 were disclosed as income for 2015. As a result, the revenue in the financial statements was overstated. I recommended the Authority to recognise revenue by properly accounting for revenue as and when the fee is due for payment by the companies to the Authority.

## QUALIFIED OPINION

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

- (a) the financial statements are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Authority as at 31 December 2015 and the results of its financial operations for the year then ended.”

### 55.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2015 was issued on 31 July 2018. The report contained the following observations:

#### Register of Disciplinary Points

I noted that the Authority had not maintained a Register of Disciplinary Points. It is a statutory requirement Pursuant to provisions of the *Security (Protection) Industry Act 2004, Section 25* which stipulates that the Authority should maintain a Register of Disciplinary Points. The Register of Disciplinary Points is to be used by the Authority to record findings through Board of Complaints in relation to disciplinary points that needs to be recorded against a holder of licence or permit. My review revealed that the Authority did not have in place a proper mechanism to account for disciplinary issues and actions taken against the licence and permit holders, when any breach occurs.

I drew this matter to the attention of the Authority and the Authority advised me that they have now put in place a Registrar of Disciplinary Points managed by the Manager Licensing and Compliance despite the absence of Board of Complaints.

#### Board of Complaints

I noted during the audit that the Authority did not have a Board of Complaints to deal with complaints raised by or against licence and permit holders as required under *Section 57* of the *Security (Protection) Industry Act 2004*.

I recommended the Authority to ensure that a Board of Complaints is established as per the requirement of *Section 57* of the *Security (Protection) Industry Act 2004* to perform its required function as a quasi-judicial Board to hear into complaints/ allegations made by or against permit and licence holders.

The Authority responded to my concern as follows:

*“The Security Industries Authority Council approved the establishment of the Board of Complaints and we advertised it in the media seeking suitable candidates in which several responded and were selected but later they didn’t show interest to take up the post. In a Council meeting 2 of 2017 held in November 2017, it selected one (1) person to sit in the Board of Complaints with one (1) Council Member and we wrote to that person to respond if he is interested in the offer but he is yet to respond to us. Once the Council receives the acceptance letter, we will submit his name to the Police Minister for Gazettal under section 9 of the Security (Protection) Act to enable the formal establishment of the Board of Complaints.”*

### **Annual Returns**

It is a requirement under *Section 76* of the *Security (Protection) Industry Act 2004* that all licence holders are required to submit an Annual Return on or before 31<sup>st</sup> March for the year ending 31 December preceding. During my review, I noted that no annual returns were received from licence holders. The Authority had not pursued the enforcement of this statutory requirement through mechanism such as cancelation or refusal to grant licences.

I drew this matter to the attention of the management and they responded as follows:

*“We agree with you on the requirement for the submission of annual returns by Security Companies as required by Section 9 of the Security (Protection) Industry Act. We’ve advertised in media reminding security companies to submit their annual returns but only few or none have been submitting their annual returns.*

*And further there is no penalty listed in the Security (Protection) Industry Act for failing to submit the Annual Returns, therefore we cannot cancel the security providers’ license and guards’ permit or penalize security companies in one way or another.”*

### **Council Meetings**

During my review of the 2015 meeting minutes, I noted that only two meetings were held during the year and meeting number one which was held on 16 April 2015 was conducted without the presence of a quorum as required under *Section 15, Sub-section 1(a) of the Security Industry (Protection) Act 2014*. The Act stipulates that six (6) council members constitute a quorum but I noted that meeting one consisted of five (5) Council members only.

I recommended the Authority to ensure that required quorum exists to lawfully conduct Council meetings. The Authority responded to my observation as follows:

*“We agree with the audit findings that we did not have the full quorum for meeting number one. This happened because the Council member who didn’t attend was attending another important meeting in another organization at the same time. His nonattendance was made known to us prior to the meeting. However, the absentee Council member sent a letter to the Chairman agreeing to the agendas and the resolutions that would be discussed and passed in the meeting thus, legalizing the whole Council meeting process.”*

### **Council Stipend and Sitting Allowances – Ex officio Members**

My review of the Council Members and expenses, revealed that two Ex-officio members were paid Sitting allowances and stipend. As senior Public servants serving as a member of the Council by virtue of operations of *Section 9, sub-sections 1(a) and 1(h)* of the *Security (Protection) Industry Act 2004*; the two Ex-officio members were not supposed to receive the sitting allowances and stipend.

This exercise was in breach of *Section 3* of the *Boards (Fees and Allowances) Act, 1955* and *Section 25(3)* of the *Public Finance Manual and Circular Instructions 21/2000* and *1/2005* from Department of Personnel Management.

I recommended the Authority to cease the practice of paying Ex-officio members stipend and sitting allowances. However, I recommended the Authority to pay travel cost, accommodation and travel allowances for meetings held in other centers /locations where they were required to travel.

I drew this matter to the attention of the management and they responded as follows:

*“I advise that this payment is quite lawful as the Security Industries Authority (SIA) is a self-funding government agency that does not receive funding from the National Government but generates its own money from security licensing and guards permits fees in which it pays its staff and Council Members including its Ex-official members. Besides this, the full Council makes its own decision and determinations within the provisions of the Security Industry (Protection) Act 2004 to pay stipends and allowances to all its Council Members. Section 8 of the Security Industry (Protection) Act 2004 lawfully empowers the full Council members including Ex officio members to set its own terms and conditions which it see fit.”*

### **Increase in Council Stipend and Sitting Allowances**

During my review of the 2015 meeting minutes of meeting number 02 of 2015 held on 8 September 2015, I noted that the council members approved an increase of stipend and sitting allowances for themselves. I further noted that the increased rates were over the threshold set by Department of Personnel Management in *Circular Number 21/2000*. The Authority as per the circular is classified under *Category “A”* as *Commercial Statutory Authorities*.

The Authority was in breach of *Section 3 of the Boards (Fees and Allowances) Act 1955* and *Circular Instructions 21/2000* from Department of Personnel Management.

I recommended the Authority to ensure compliance of *Section 3 of the Boards (Fees and Allowances) Act 1955* and *circular instructions 21/2000* from Department of Personnel Management as the Authority is a *Commercial Statutory Authority* created by an Act of Parliament.

The Authority responded to my observation as follows:

*“I advise that the Stipends and Sitting Allowances increase is quite lawful because the full legally constituted quorum in Council Meeting 2 held on 8 September 2018 voted to increase their Stipend and Sitting Allowances. It was lawfully empowered by Section 8 of the Security Industry (Protection) Act 2004 to increase its Stipend and Sitting Allowances.”*

### **Payroll and Tax Clearing - (K336,652)**

During my review of the Payroll and Tax Clearing account, I noted that the Authority had failed to do a proper reconciliation and remittance of tax in a timely manner to Industry Revenue Commission (IRC). This had resulted in an increase of K336,653 in the liability accounts.

I recommended that the Authority should remit its salary and wages taxes in a timely manner in compliance with the *Income Tax Act 1959* to avoid being penalized by IRC and the Management of the Authority responded as follows:

*“The Management accepts the audit recommendation to do timely remittance of tax to IRC. However, Security Industries Authority is a self – funding government agency whose main source of income is through security licensing fees which are paid annually by the security companies. These fees are very minimal and it is insufficient to fund the full operations of the organization given its low fees.”*

### **Non Compliance – GST Returns K87,069**

I observed that the Authority did not remit its monthly GST returns for the year under review resulted in a total amount owing of K87,069 to IRC at year end. I recommended to the Authority that GST returns be remitted on a monthly basis so as to comply with GST Act and to avoid any unnecessary cost to the Authority through penalty.

The Management responded to my query as follows:

*“The Management accepts the audit recommendation to do timely remittance of tax to IRC.”*

*However, Security Industries Authority is a self – funding government agency whose main source of income is through security licensing fees which are paid annually by the security companies. These fees are very minimal and it is insufficient to fund the full operations of the organization given its low fees.”*

### **Income Tax – Assessable Benefits Allowance**

The following issues related to taxation matters were to be resolved by the Authority. During my review of taxes I observed significant flaws in the treatment of allowances paid to the employees of the Authority as follows:

- Vehicle Allowance - The motor vehicle allowances of the contract staff were not included in the calculation of the contract officers taxable salaries. This was in breach of the Tax Law where if the vehicle was provided by the Authority with fuel and unrestricted use to its contract officers, an amount of K125 had to be taxable and included in their salaries. However, if provided without fuel, then K95 was taxable fortnightly.
- Security Allowance - The Authority pays its employees security allowances as cash allowance fortnightly by claiming it as a tax free allowance. This was in breach of the Income Tax Act. The Security allowances were fully taxable in the hands of the employee when paid as cash allowances and non-taxable when paid on behalf of the employee by the employer. No variation was allowed.
- Other Allowance - All other allowances were part of the employees’ salary and wages as defined in the Income Tax Act. Accordingly all allowances whether paid or reimbursed directly or indirectly by the employer to or on behalf of the employee were to be included in the calculation of the employees’ salaries or wages. The only exception is where the Commissioner General had approved a variation of Salary or wages tax in writing under *Section 299E* of the *Income Tax Act 1959*. The Authority was not in compliance with the Income Tax Act; overpayment of allowances without been taxed were considered as tax evasion and could lead to penalties by IRC.

I recommended the Authority to ensure it complies with the *Income Tax Act 1959* and apply appropriate tax calculation on salaries and allowances as per the Tax Act.

The management respond to my observation as follows:

*“All the Security Industry Authority staff including contract and non-contract officers and the Registrar’s terms and conditions and benefits allowances were made by a private HR Consultant called Merit Enterprise Ltd engaged by Security Industries Authority Council in 2005. The document by Merit Enterprise Ltd was approved by DPM in 2005 before SIA came into operation in January 2006.*



*However, the approval from DPM was not furnished to me to confirm the approved terms and conditions and the treatment of tax. We are just following the DPM approved employment condition in paying our staff including the Registrar.”*

### **Personnel Files**

I noted that the personnel files were not properly maintained with necessary personal records such as, birth certificates of declared dependents. I also noted that one contract officer was working on an unsigned contract. Poor maintenance of staff personal files can increase risk of fraud and error such as dubious dependent claims and payment of contract officers on invalid unsigned contracts. I recommended the Authority to ensure staff personnel files were properly maintained and were updated regularly and that contract officers had signed contracts.

The Management of the Authority responded to my observation as follows:

*“We noted and accepted your observation and that we will work on your recommendation to maintain and regularly update the staff personal files. We did not have a HR in 2015; as a result, the HR duties were handled by the Manager Finance and Administration. Thus, not enough quality time was given to the Staff HR record keeping. We now have a HR Officer who is updating all HR records for the staff.”*

### **Non Acquittals of Travel Advances**

My review of the travel expenses totalling K171,921 incurred by staff on duty travel (domestic and overseas) again revealed that the Authority did not maintain a Travel Advances Register to ensure that the advances were properly recorded and timely acquitted. As a result, the above total remained outstanding or unacquitted at year end.

I drew this issue to the attention of the Management and they responded as follows:

*“There are 2 security compliance inspections per year and some short trips by me (Registrar) and the managers therefore they are not many acquittals on the files. However, we have maintained an accurate record but we do appreciate and take your advice to have manual Register which we have now created a book to cater for this.”*

## **55.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Authority for the years ended 31 December 2016, 2017 and 2018 had not been submitted for my inspection and audit despite numerous reminders.

## **56. SMALL AND MEDIUM ENTERPRISES CORPORATION (Formerly Small Business Development Corporation)**

### **56.1 INTRODUCTION**

#### **56.1.1 Legislation**

The Small and Medium Enterprises Corporation (formerly Small Business Development Corporation) was established under the *Small and Medium Enterprises Corporation Act 2014*. This Act came into operation on 10 February 2015.

#### **56.1.2 Functions of the Corporation**

The functions of the Corporation are to:

- co-ordinate, monitor and evaluate the implementation of the policies, strategies and programs for small and medium enterprises in accordance with the Small and Medium Enterprises Policy, the Master Plan of the Government as directed by the Small and Medium Enterprises Development Council and the Ministry responsible for trade, commerce and industry matters;
- undertake studies concerning the development of small and medium enterprises;
- liaise with the National Executive Council or relevant Ministry in the implementation of the policies, strategies and programmes for small and medium enterprises;
- being responsible for collecting, sourcing, keeping and disseminating information on small and medium enterprises;
- act as the Secretariat to the Council;
- in the manufacturing and services sectors:
  - to undertake promotional activities to promote growth of small and medium enterprises;
  - to promote co-operation amongst small and medium enterprises;
  - to encourage industrial linkages with the large industries;
  - to develop human resource in the small and medium enterprises; and
- undertake any work and investments necessary to promote and grow the small and medium enterprises sector in the economy.

### **56.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Corporation for the years ended 31 December 2016 and 2017 had been completed and the results were being evaluated.

The Corporation had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **57. TOURISM PROMOTION AUTHORITY**

### **57.1 INTRODUCTION**

#### **57.1.1 Legislation**

The Tourism Promotion Authority was established under the *Tourism Promotion Authority Act 1993*. This Act came into operation on 3 June 1993 thereby repealing the *Tourism Development Corporation Act 1990*. The Authority commenced its operational activities on 1 April 1993.

Under the *Tourism Promotion Authority Act* all assets held by and obligations and liabilities imposed on the Tourism Development Corporation which related to the functions of the Authority were transferred to it (the Authority), and the rest of the assets and liabilities were transferred to the National Cultural Committee on 3 June 1993.

#### **57.1.2 Functions of the Authority**

The principal functions of the Authority are to:

- foster the development of tourism in PNG;
- formulate a tourism policy for consideration by the NEC and to implement the tourism policy approved by the NEC;
- promote PNG overseas as a tourist destination;
- co-ordinate the overseas promotional efforts of the PNG tourism industry;
- encourage the provision, development and expansion of tourism infrastructure, facilities and products in PNG; and
- enhance awareness within PNG of the tourism industry and tourism opportunities.

### **57.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **57.2.1 Comments on Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the year ended 31 December 2017 was issued on 16 January 2019. The report did not contain any qualification.

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

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the financial statements of the Authority for the year ended 31 December 2017 was issued on 16 January 2019. The report contained the following matters:

## **Contract of Employment for Chief Executive Officer**

I was unable to authenticate the validity of the final entitlements paid to Authority's former Managing Director as the signed copy of his *Contract of Employment* was not provided for my audit verification by the Authority. This issue had not been resolved and the former Managing Director's term expired in 2015. I also noted during the review of the personal files that the Authority's current Managing Director's *Contract of Employment* effective from June 2016 was also not available for my examination.

The Authority advised that the *Contract of Employment* for the current Managing Director had been drafted and sent to the Office of the State Solicitor for legal clearance before it is signed by the incumbent and the State.

## **Personnel Files**

My review of the personnel files for certain selected officers of the Authority revealed that the management had maintained the salary history cards in their respective personal files. However, the salary history cards were not updated by the Human Resource Section in terms of base salary, higher duty allowances and other allowances. I further noted that leave records for each employee such as recreational, sick, compassionate and long service were not updated.

The Authority responded to my observation as follows:

*"We admit that salary history cards for some employees have yet to be maintained and updated in their personal files. The Human Resource Section is currently transferring all individual employee salary and allowances including leave records onto the template. It is hoped that we should have this issue resolved within this year for audit inspection next year."*

## **57.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Authority had submitted its financial statements for the year ended 31 December 2018 and arrangements were being made to commence the audit shortly.

## **58. UNIVERSITY OF GOROKA**

### **58.1 INTRODUCTION**

#### **58.1.1 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 Campus.

#### **58.1.2 Objectives of the University**

The objectives of the University are dedicated to the pursuit, advancement and dissemination of knowledge, understanding and wisdom; the paying of particular attention to the human resource development and other development needs of PNG; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

#### **58.1.3 Powers of the University**

The University shall have the power to:

- grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- provide facilities for extramural study and continuing education to persons, whether members of the University or not, in such fields and in such manner as the University may from time to time determine;
- co-operate in pursuance of any of the objectives of the University with any other bodies or persons to enter into agreements authorised by Statute with institutions for their affiliation with or incorporation into the University;
- subject to the *Salaries and Conditions Monitoring Committee Act*, to appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
- provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residence;

- regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- cancel, annul or revoke any act done in the exercise of these powers; and
- do all such other acts or things as may be done under the provisions of this Act or these powers or as may be conducive to the exercise of the attainment of any of the objectives of the University.

#### **58.1.4 Subsidiary of the University**

The University has a Subsidiary Company, *Unigor Consultancy Limited*. Comments in relation to this Company are contained in paragraph 58A of this Report.

## **58.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **58.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the University for the years ended 31 December 2015 and 2016 were issued on 21 and 24 September 2018 respectively. The reports contained similar Disclaimer of Opinions, hence, only the 2016 report is reproduced.

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

##### **Opening Balances**

The 2015 audit report was issued with a Disclaimer of Opinion due to Limitation of Scope arising from inability to obtain satisfactory accounting records, source documentations and reconciliations to satisfy myself as to the accuracy and completeness of opening balances of Fixed Assets, Cash at Bank, Equity and Cash flows. I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have consequential effects on the balances stated in financial statements of the University for the year ended 31 December 2016.

##### **Statement of Cash flows**

My review of the 2016 consolidated statement of cash flows revealed the following:

- an adjustment of K168,776 was noted under the grant account without proper explanation and supporting evidence;
- the increase of K96,403 relating to sundry debtors in the grant account was not taken up in the consolidated cash flows statement;

- unexplained variances of K265,180 and K154,282 were noted between the end of year cash balances per the statement of cash flows and the balance sheet for the Grant and Menifor accounts respectively; and
- the cash flows statement balance of K26,421,071 did not agree to the cash and cash equivalents balance in the statement of financial position of K12,830,105 resulting in a variance of K13,590,966.

As such, I was unable to conclude on the accuracy and completeness of the consolidated cash flows statement and the cash and cash equivalents balance disclosed in the statement of financial position as at 31 December 2016.

### Statement of Changes in Equity

My review of the statement of changes in equity revealed the following:

- staff entitlements (GJ001014-K129,585) was incorrectly treated and transferred to the equity statement at the end of year without proper explanation;
- bank adjustments totaling K585,615 in the grant account were charged to equity (historical balance) account without proper supporting documentations; and
- opening balances per the general ledgers did not correspond to the closing balances per the 2016 financial statements. No supporting documentations were provided during the course of my audit. Details are presented below:

Account	Details	Amount as per FS (K)	Amount as per GL (K)	Variance (K)
Grant	Capital/Fund	30,774,095	30,996,548	222,453
Grant	Accumulated Retained Surplus/Deficit	(7,800,049)	(7,816,811)	16,762
Internal Revenue	Capital /Fund	(6,168,764)	(6,787,414)	618,650

Due to lack of proper audit trail and scope limitation, I was not able to conclude on the accuracy and completeness of the equity balance disclosed at year end.

### Cash at Bank – K12,830,105

I noted the following during my review of the cash balance of the University as at 31 December 2016:

- Grant and Internal Revenue accounts monthly bank reconciliations revealed variances between the cash at bank general ledger balance stated in the reconciliation and the cash at bank general ledger balances in the accounting system (MYOB). Cumulative variances noted in the Grant and Internal Revenue Accounts were K4,359,948 and K9,987,054 respectively; and

- Bank adjustments (journals) with net amounts of K365,963 debit and K589,726 credit were noted in the Grant and Internal Revenue Accounts cash ledgers respectively. However, no proper explanation was provided for my verification and confirmation on the basis for those adjustments.

Due to insufficient supporting documentations and explanation, I was unable to neither gain comfort over the above transactions nor conclude on the accuracy and completeness of the cash at bank balance as at balance date.

#### **Fixed Term Deposit – K561,146**

The University maintains fixed term deposits with Bank of South Pacific (BSP), Australian and New Zealand (ANZ) and Westpac bank totaling K561,146 as disclosed at the year end. During my review, I was not provided with the necessary supporting documentation such as investment schedules and certificates for my verification. Further, I was not provided with independent bank confirmations to confirm the balance with the respective financial institutions. Due to insufficient supporting schedules and documentation, I was not able to perform any reconciliation to confirm the existence, accuracy and completeness of the recorded investment and interest income earned during the year.

#### **Fixed Assets Valuation and Depreciation Charge**

My review revealed very weak internal controls around the use and management of the fixed assets of the University in 2016. That includes lack of proper Fixed Assets Register, no fixed assets policy in place, no timely stock-take and that there was no recent revaluation carried out on properties up to the time of my audit. With the lack of proper Register, I was unable to conclude on the accuracy and completeness of balance representing fixed assets at year end. Consequently, I was unable to confirm the accuracy of the depreciation expense amounted to K3,380,496 disclosed in the financial statements.

#### **Additions to Building – K56,156,549**

As at 31 December 2016, the University transferred K56,156,549 in aggregate from work-in-progress to buildings under the PIP account. The amount transferred relates to specific projects namely the construction of student dormitories, staff houses, student mess, generators and sewerage projects. During my review, I noted that the University failed to treat component costs incurred in relation to a project separately so as to determine the accurate value for each project on completion. As such, I was not able to ascertain the completeness, accuracy, valuation and allocation of the individual projects completed and transferred to fixed assets (building) account in 2016.



### **Proper Accounting and Disclosure – Fixed Assets**

My review revealed that the University did not fairly account and disclose in its records all assets it owns and in its custody as at balance date. During my review, I noted that stages 2-4 construction costs of the student dormitory totalling K108,000,881 and completed mid-wifery buildings with a total cost of K7,500,000 were not captured in the accounts and disclosed at year end. As such, the financial statements for the year ended 31 December 2016 did not fairly reflect the correct value of the assets of the University.

### **Deferred Income – K72,842,307**

Deferred income disclosed at year end was K72,842,307. During my review, I noted that most of the projects (student dormitories stages 1-5 and staff housing) which corresponded to the deferred income had been completed however, no recognition of income was made to reduce the balance. As a result, I was not able to ascertain the treatment, completeness, and accuracy of the deferred income balance of K72,842,307 disclosed at year end.

### **Trade Creditors – K1,614,312**

I noted that the University did not maintain a trade creditors' aged listing to record and monitor outstanding invoices and creditors reconciliations during the year under review. The creditors aging report is a key tool for monitoring invoices and settlements of bills, as it keeps track of invoices that are current, due and overdue. The exercise of creditors reconciliations is crucial to ensure ending balance reconciles with the general ledger. As a result, I was unable to perform the necessary audit procedures to confirm the completeness and the accuracy of the creditors balance due to limitation of scope.

### **Tuition and Other Fees – K17,919,973**

During my review of the tuition fee account, I noted the following:

- debits (payments) totalling K1,066,470 charged against the tuition fees income accounts could not be verified due to insufficient supporting documentations;
- receipts totalling K2,306,075 could not be verified to the receipt books as no receipt copies were maintained on file; and
- tuition fees totalling K591,689 received from the Distance Flexible Learning (DFL) account had no proper receipts and supporting documentations for my verification.

Due to the above, I was unable to perform necessary audit procedures and to ascertain the validity, accuracy and completeness of tuition and other fee income received and disclosed in 2016.

## DISCLAIMER OF OPINION

In my opinion, because of the existence of the limitation of scope on my work as described in the Basis for Disclaimer of Opinion paragraphs, and the effects of such adjustments, if any, that might have been determined to be necessary had the limitations not existed, I am unable to and do not express an opinion on the financial statements of the University for the year ended 31 December 2016.”

### 58.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the University for the years ended 31 December 2015 and 2016 were issued on 21 and 24 September 2018 respectively. The reports contained similar significant matters, hence, only the 2016 report is reproduced:

#### Operational Policy Manuals

My review revealed that the operational procedural manuals used by the University in 2016 were out-dated and not applicable for use given the current demands and changes in technology. The operational and procedural manuals such as accounting manuals, operational guidelines and policies of an entity are control mechanism that ensures uniform application of processes across all levels of management and must be formally established, well documented and communicated to all levels and functions of organization to be used by all personnel in the routine operational activities.

In the absence of properly updated and approved policy manuals and guidelines, there is a high risk of abuses and malpractices to take place within the University.

I raised this issue and recommended the University to revisit the outdated policies and ensure to have new ones in place. Management responded to my comments as follows:

*“The Top Management Team established 39 working groups comprising of University staff to review existing policies and develop new policies that are not in place are now reviewed and finalized.”*

#### Inefficiencies in the Accounting System

During my review, I noted severe breakdown and inefficiencies in terms of record maintenance, identification and classification of transactions and posting into the accounting system (MYOB). Numerous classification and posting errors were noted in the accounting system. The weaknesses noted were the result of incompetent work force and lack of qualified staff in the Bursary section to undertake necessary accounting tasks.

I raised this issue and recommended the University to provide more training and to recruit qualified accountants to ensure proper accounting system is maintained. In its response, the management advised that it would look in employing qualified accountants in the future.

### **Fixed Assets – K88,777,319**

My review of the fixed assets and related records revealed the following weaknesses:

- The University did not have an updated and complete Fixed Assets Register (FAR) as at 31 December 2016;
- There was no proper policy formulated by the University in relation to the acquiring of assets, capitalization and the disposal;
- The University had not conducted regular stock-take on its assets for a number of years up to 31 December 2016. Assets were not counted and tagged with asset numbers for verification and control; and
- The University had not carried out any revaluation exercise on all the land and buildings owned and in its custody to reflect the fair values of the land and buildings at year end.

As such, I was not able to place any reliance on the effectiveness of the internal controls surrounding the management and use of the fixed assets of the University. Over the years I had repeatedly brought the issue to the attention of the successive management however, not much improvement was noted so far.

### **Cash at Bank – K12,830,105**

As at 31 December 2016, the University disclosed its cash at bank balance at K12,830,105. During my review on the balance and my testing of the effectiveness of the internal controls, I noted significant weaknesses in the system as detailed below:

- Subsequent testing on selected outstanding cheques revealed that different amounts being posted in the general ledger against the amounts presented per the bank statements;
- Cancelled cheques were not properly reversed and cancelled in the system however, carried forward as reconciling items in the bank reconciliation statements;
- There were instances of un-presented cheques appearing in the bank reconciliation for more than one (1) year without being corrected;
- Receipt # CR010563 dated 12 November 2015 being for 82xSDU students for tuition fees remained as outstanding deposit/deposit in transit for more than one (1) year;
- There was no segregation of duties in the bank reconciliation function; and

- Bank reconciliations were not prepared and reviewed by senior competent officers of the University on a timely basis.

I continuously reported in my prior years' audits about the control weaknesses surrounding the bank reconciliation process however, not much improvement was noted. As a result, I was not able to place reliance on the effectiveness of the internal controls surrounding the bank reconciliation function.

### **Lack of Proper Acquittal of Travel Advances**

My review of travel and subsistence expenses for the year revealed that payments amounting to K344,244 were not properly acquitted by concerned staff of the University during the year. I also observed that Travel Advances Register was not properly maintained by the University in 2016. It is a requirement under the *Public Finances (Management) Act 1995* and the *Financial Management Manual Part 20 paragraph 11.2* that cash advanced to officers travelling overseas on official duty must acquit travel advances within fourteen (14) days of return from duty travel. At the same time *Part 20 paragraph 12.10* of the Manual stipulates that advances to officers for domestic duty travels to be acquitted within seven (7) days of return from duty travel by submitting an acquittal form. As a result, the University had not properly observed the requirements of the *PFMA* and *Financial Manual*.

### **Lack of Three (3) Written Quotations**

My examination revealed that payments totalling K831,519 were executed without obtaining three (3) written quotations from three (3) different suppliers nor minor contract agreements drawn. I also noted that in the absence of three (3) written quotations, the University failed to provide reasons for the lack of three (3) written quote requirements for record purposes. As such, the University had not complied with *Public Finances (Management) Act 1995* and *Financial Instructions 2/2013 (point 5.1)* which requires that “*Purchases for amounts between K5001 and K500,000, three written quotations are required however, for purchases between K50,000 – K500,000 in addition to three (3) written quotations, a Minor Contract Agreement executed by the Head of the procuring Agency is required.*” Consequently, I was unable to place any reliance on the effectiveness of the internal controls surrounding the procurement of goods and services in 2016.

### **Missing Payment Vouchers**

The University had not fully complied with *Section 62(1)* of the *Public Finances (Management) Act 1995* requiring public bodies to keep proper account and records of its affairs. As such, payment vouchers totalling K418,866 were missing and not provided for audit verification. Due to lack of source documents and proper record keeping, I was unable to perform the necessary audit procedures to determine the authenticity of payments totalling K418,866.

### **58.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and examination of the financial statements of the University for the year ended 31 December 2017 had been completed and management responses were being awaited to finalise the audit reports.

The University had not submitted its financial statements for the year ended 31 December 2018 for my audit and inspection.

## **58A. UNIGOR CONSULTANCY LIMITED (Subsidiary of the University of Goroka)**

### **58A.1 INTRODUCTION**

Unigor Consultancy Limited is 100% owned by the University of Goroka. It was incorporated on 29 March 2000 as a consultancy company under the *Companies Act*.

#### **58A.1.1 Objectives of the Company**

The Company's objectives are to:

- advance, promote, assist and encourage the educational purposes of the University through;
  - short term programs for and on behalf of the University tailored to the needs of clients; and
  - research, consultancy and publication of all educational materials for commercial purposes;
- conduct or undertake any other business activity both within and outside of PNG; and
- expand and diversify business activities to maximise profits and to promote the interest of the Shareholder from time to time.

#### **58A.1.2 Functions of the Company**

The core function of the Company is to provide services in four key areas:

- professional consultancy services, teaching and dissemination of knowledge;
- merchandising of textbooks, educational supplies and stationary;
- printing and publication of educational materials, textbooks, business documents and all other forms of print material; and
- catering and cafeteria services.

### **58A.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2014, 2015 and 2016 had been submitted and arrangements were being made to commence the audit shortly.

The Company had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my audit and inspection.

## **59. UNIVERSITY OF NATURAL RESOURCES AND ENVIRONMENT**

### **59.1 INTRODUCTION**

#### **59.1.1 Legislation**

The University of Vudal was established under the *University of Vudal Act 1997*. This Act came into operation on 1 January 1997 and became operative in the same year. The University changed its name to University of Natural Resources and Environment in 2008 after the enactment of the *University of Vudal (Amendment) Act 2009*.

Under the Principal Act, the Vudal University College Campus of the PNG University of Technology was transferred to the University of Vudal with all staff and students, buildings and land, equipment, teaching and research facilities, and other assets and liabilities both within and outside the College Campus.

Although the new entity was created by the Act in 1997, the finance and accounting function was transferred to the University of Vudal only on 1 January 1998.

#### **59.1.2 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; paying particular attention to the human resource development and other development needs of PNG; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

#### **59.1.3 Powers of the University**

*Section 6* of the Act enshrines the University as having the power to:

- grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- provide facilities for extramural study and continuing education to persons, whether members of the University or not, in such fields and in such manner as the University may from time to time determine;
- co-operate in pursuance of any of the objectives of the University with any other bodies or persons to enter into agreements authorised by Statute with institutions for their affiliation with or incorporation into the University;

- subject to the *SCMC Act* appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
- provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residences;
- regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- cancel, annul or revoke any act done in the exercise of these powers; and
- do all such other acts or things as may be done under the provisions of this Act or these powers or as may be conducive to the exercise of the attainment of any of the objectives of the University.

## **59.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the University for the years ended 31 December 2015 and 2016 were submitted and arrangements were being made to commence the audit shortly.

The University had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit.



## **60. UNIVERSITY OF PAPUA NEW GUINEA**

### **60.1 INTRODUCTION**

#### **60.1.1 Legislation**

The University of Papua New Guinea was established under the *University of Papua New Guinea Act (Chapter 169)*.

#### **60.1.2 Objectives of the University**

The objectives of the University include the:

- provision of facilities for study and education;
- giving of instruction and training in all such branches of learning as are provided for by the Statutes;
- aiding by research and other means the advancement of knowledge and its practical application;
- conferring, after examination, of the degrees of Bachelor, Master and Doctorate and such other degrees, diplomas, certificates and other academic honours as are authorised by the Statutes;
- provision of facilities for university education throughout the country by the affiliation of educational institutions, and by the establishment of tutorial classes, correspondence classes, university extension classes, and vacation classes, and by such other means as the Council thinks appropriate; and
- liaison, collaboration and reciprocation with other universities and institutions of learning, within or outside the country, in the provision of facilities, the recognition of degrees and other status, and the interchange of staff, students and information, and in any other way not inconsistent with its status as the University.

#### **60.1.3 Subsidiaries of the University**

The University has two subsidiaries; *Unisave Limited* and *Univentures Limited* which were incorporated under the *Companies Act*. Comments in relation to the subsidiaries are contained in paragraphs 60A and 60B of this Report.

### **60.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **60.2.1 Comments on the Financial Statements**

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the University for the year ended 31 December 2014 was issued on 3 August 2018. The report contained a Qualified Opinion.

## **“BASIS FOR QUALIFIED OPINION**

### **Opening Balances / Comparatives**

My report for the year ended 31 December 2013 was a qualified opinion. Due to errors and material limitations of scope as I reported in my prior years' audits, I was unable to confirm the completeness and accuracy of the opening balances/comparatives as at 1 January 2014. Consequently, I was unable to perform tests to verify the completeness and accuracy of the closing balance of assets (excluding cash) and liabilities disclosed in notes to the financial statements as at 31 December 2014.

### **The Financial Statements**

The University's financial statements were prepared on a cash basis. The financial data were derived from the accrual basis attaché accounting system after making adjustments for movement of liabilities. However, I was not provided with complete details of the adjustments made to determine potential misstatement on the receipts and payments recorded for the year.

I also noted that there was no detailed general ledger transaction on actual cash payments totaled K7.2 million to serve as an audit trail for me to substantiate their completeness and accuracy.

Further, nature and volume of the transactions of the University has been significant and its properties were of great value. Therefore, cash basis of accounting seems not appropriate for use by the University. The 2014 financial statements of the University did not disclose sufficient financial information for me to determine accurate financial position and results of its operations.

In view of the above deviations, I cannot rule out on potential misstatements in the receipts and payments recorded and reported in the financial statements.

**Special Purpose Account: (K789,903)**

I noted that the Special Purpose Account (SPA) appears to operate independently. The SPA's transactions for the 2014 financial year were not taken up as part of the University's receipts and payments in the financial statements except for the summary statement without details as disclosed in *Note 12* to the financial statements. Since the SPA operates to account for funds received for various projects funded by donor agencies and the Government, there must be accountability and is subject to my audit as required by the *Public Finances (Management) Act 1995 (as amended)*.

Not reporting the SPA's receipts and payments renders the University's financial statements incomplete. I also noted that as at 31 December 2014 the SPA reported a debit balance of K789,903 which seems not appropriate and allowable.

**Fixed Assets: K109,693,735 (2013:K106,925,337)**

*Note 10* to the financial statements disclosed the University fixed assets at a book value of K109,693,735. The University did not maintain a proper Fixed Assets Register during the year. The Fixed Assets Register was incomplete and details of the assets including descriptions, additions, disposals, and location of their existence were not recorded. Physical stock-take was not conducted on all fixed assets of the University in 2014 or in the past years purposely to update the Fixed Asset Register.

I also noted that the details on Infrastructure Development Program (IDP) money spent by the Office of Higher Education (OHE) on various rehabilitation programs of the University were not disclosed under fixed assets. In addition, the work-in-progress on major constructions undertaken during the year was not adequately identified and disclosed.

Due to lack of physical stock-count and in the absence of full disclosure of all fixed assets owned by the University as at 31 December 2014, I cannot rule out on potential misstatement in the value of the University's fixed assets.

**QUALIFIED OPINION**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements of University of Papua New Guinea for the year ended 31 December 2014:

- (a) give a true and fair view of the receipts and payments and the results of its operations for the year then ended; and
- (b) with exception of instances on non-compliance described under Other Matters, the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act 1995*.

## **OTHER MATTER**

### **Non- Submission of Audited Financial Statements**

The University submitted its 2014 financial statements on 15 February 2016 to enable me to conduct the audit. The 2014 audit commenced in April and completed by November 2017. To date the management has not responded to my management letter. Non-submission of Financial Statements by the University to my Office to enable me to complete audit before end of 30 June of the following year is in breach of *Section 63(2)* and *Section 63(4)* of *Public Finances (Management) Act 1995*.”

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

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the University for the year ended 31 December 2014 was issued on 3 August 2018. The report contained the following observations:

#### **Financial Statements/Accounting System**

Due to capacity issues within the University’s Bursary department, the financial statements had been prepared manually and submitted very late after the lapse of due date of 30 June 2015. The University adopted cash basis of accounting to prepare and present the financial statements. On the contrary, the financial information presented were taken up from data maintained on an accrual basis from an attaché accounting system. Also, the financial statements submitted for my audit had failed to include more additional information. The University was lacking proper management accounting system. A uniform management accounting system (accounting package) was needed by all the schools, departments, branches, divisions and centers of the University to be integrated to enable timely production of system generated financial reports.

#### **Tuition Fees**

I noted weak controls in accounting for tuition fees. The University did not maintain student fees receipt ledgers to establish control over students owing fees and any refund due to students. Also, there was no proper reconciliation performed on the tuition fees collected from the external students against the number of students registered in the Distance Education Mode at UPNG and all other provincial Open Campus Centers.

Further, the fees collected from the Honiara Open Campus students were not accounted for in the books of the University. The University should enforce adequate internal control measures on tuition fee revenue collections to ensure that all fees collectable from students are collected and accounted for appropriately.

## **Imprest Accounts**

I noted that monthly bank reconciliations were not performed on all the twenty-three (23) imprest accounts maintained by the University's various open campus centers. Also, bank statements of all the imprest accounts were not made available for my review. Further, the University's cash book did not include the receipts and payments of each Open Campus Imprest Accounts maintained by the various centers. No policy has been made available for my review in respect of these Imprest Bank Accounts.

## **Associate Companies**

I was not provided with audited financial statements of the University's associate companies namely the Univenture Limited and Unisave Limited. As a result, the 2014 financial results of the associate companies were not consolidated into the University's financial statements.

Further, I was not provided with all the necessary documentation to determine the correctness of the K1.0 million disclosed in *Note 14* as Univentures' Capital fund received from SPA. The management should maintain and provide adequate documentation in respect of this investment for my verification.

## **Capital Payments**

A Project Manager was paid K1.4 million in relation to the construction of Science IV Building. I was unable to confirm the validity of the payments in view of delays in the progress of the construction and the fact that the Project Manager has been involved in other failed projects of the University over the past years. Further, K4.44 million was paid to a contractor for Phase II construction of the Law School building. I was not provided with the legal contract documents and NEC approval granted to the contractor to determine the validity of the payment made to the contractor during the year.

## **Gerehu Housing Project**

The Gerehu Housing Project was a failed project. I was not provided with any document indicating appropriate recovery action taken against the contractor and project manager in respect of this failed project.

## **Travel Expenses**

I noted that duty travel and associated payments were not supported by evidence of travel including boarding passes, original invoices, hotel accommodation invoice/statement, hire car invoices and evidence of obtaining three quotes. In the absence of these primary source documents I was unable to verify whether travels were actually undertaken and value for money was obtained.

## **Home Ownership Scheme**

The University had implemented the National Home Ownership Scheme (NHOS) for its staff members in 2002. However, adequate information including current status on the progress of the scheme and financial outlays and revenue generation from the scheme were not disclosed in the financial statements.

*“Section 39D of the University of Papua New Guinea Act 1983 stipulates that the University must at least once in every fiscal year, furnish to the Minister, for presentation to the National Executive Council (NEC), a report on NHOS devised and operated by the University.”*

I was unable to confirm whether this provision was complied with by the University.

## **Open Campus**

I noted that Memorandum of Understandings (MOU) were signed between the University and various Provincial Governments of which Open Campus Centers exist. Per the MOU, the respective Provincial Government is to provide annual subsidies to meet costs of Director of the Provincial Open Campus Center, staff salaries and routine maintenance. However, I was not provided with any evidence of accounting for receipts of the provincial government grants and associated expenditures in the financial statements. These omissions had understated the respective receipts and payments reported in the financial statements.

The management should consider obtaining necessary documents and records from the respective Open Campus Centers on grants received from the Provincial Governments and account for in the University's books and report them in the financial statements.

## **Personnel Emoluments**

I noted that personnel files of the University's staff were not well maintained and updated. Therefore, information available on file were not accurate. I was unable to ensure updated claims for dependents. I could not determine validity and correctness of computations of staff entitlements in the form of leave claims, gratuities, domestic and international market allowances, overtimes and other dues.

As stated in my prior year's report, payments relating to long service leave, recreational leave, sick leave and leave fares of the employees of the University's subsidiaries have been made out from the University's payroll system without maintaining separate records to quantify the payments.

## **Liabilities**

Due to errors and material limitation of scope mentioned in my prior years' audit reports, I could not confirm the completeness and accuracy of the opening balances of Payroll Tax Liability and Loan from Special Purpose Account. I was not provided with proper reconciliations and relevant supporting documents to perform my audit procedures to determine the accuracy of the closing balances of these accounts as disclosed in *Note 11* to the financial statements.

I advised that non-remittance of salaries and wages tax to Internal Revenue Commission on time has the potential of penalty charges being laid against the University.

## **Loans to General Fund**

The University has been borrowing funds from the Special Purpose Account (SPA) until 2012 for its operational needs despite the standing instruction from the Council not to borrow further funds from the SPA. Up to 31 December 2013, a total loan amount of K16,054,247 was given to the General Fund by the Special Purpose Account (SPA). In 2014, the University refunded K4.0 million from the General Fund. The balance yet to be refunded to SPA as at 31 December 2014 was K12,054,247. The practice of borrowing from special purpose funds for operational needs is not proper as PIP funds are intended for special projects with their own governing instruments.

## **60.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and examination of the University's financial statements for the year ended 31 December 2015 was in progress. The audit has been delayed as the Management were not co-operating well with my officers authorised to conduct the audit.

The University had submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit and arrangements were being made to commence the audits shortly.

The University had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **60A. UNISAVE LIMITED (Subsidiary of University of Papua New Guinea)**

### **60A.1 INTRODUCTION**

#### **60A.1.1 Legislation**

Unisave Limited was incorporated under the *Companies Act* on 18 October 2011.

The incorporation of Unisave Limited was as a result of a Memorandum of Agreement (MOA) signed between the Univentures Limited, (a company 100% owned by University of PNG) and S.I.T Co. Limited of the Republic of South Korea.

#### **60A.1.2 Objective of the Company**

The parties to this MOA shall endeavor to create mutual commercial benefits through assembly and sale of Information Communication Technology (ICT) products and various projects which have price and quality competitiveness compared with other organisations in PNG. This will be achieved by combining of infrastructures and marketing power in PNG provided by Univentures and the technical know-how and successful long-term various experience in Korean ICT market provided by S.I.T.

The main business of the Company is to assemble TVs, PCs, laptops, monitors and other items which can be included under mutual consent, such as systems integration, systems administration and maintenance in information technology.

### **60A.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2012, 2013, 2014, 2015, 2016, 2017 and 2018 had not been submitted for my inspection and audit, despite numerous reminders.



## **60B. UNIVENTURES LIMITED (Subsidiary of University of Papua New Guinea)**

### **60B.1 INTRODUCTION**

#### **60B.1.1 Legislation**

Univentures Limited was incorporated under the *Companies Act*, on 2 August 2007. The Company has a total issued capital of one ordinary share of K1.00 and is wholly owned by the University of Papua New Guinea.

#### **60B.1.2 Functions of the Company**

The activities of the Company are to sell and print books in the Bookshop and the Printery respectively, as a business arm of the University of Papua New Guinea.

### **60B.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2012, 2013, 2014, 2015, 2016, 2017 and 2018 for my inspection and audit despite numerous reminders from my Office.

## **61. WATER PNG (Formerly PNG Water Board)**

### **61.1 INTRODUCTION**

#### **61.1.1 Legislation**

PNG Waterboard was established by the *National Water Supply and Sewerage Act 1986*, which came into operation on 1 January 1987. The 1986 Act repealed the *National Water Supply and Sewerage Act (Chapter 393)* and thereby abolished the National Water Supply and Sewerage Board. On 10 December 2010 PNG Water Board changed its name to Water PNG.

#### **61.1.2 Functions of Water PNG**

Water PNG is entrusted with co-ordinating, planning, designing, construction, management and charging for water supply and sewerage services throughout the country.

### **61.2 AUDIT OBSERVATIONS**

#### **61.2.1 Comments on Financial Statements**

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on Water PNG's financial statements for the year ended 31 December 2015 and for the period 1 January 2016 to 31 March 2017 were issued on 24 July 2018 and 21 June 2019 respectively. The reports contained similar Disclaimer of Opinions, hence, only the report for the 15 months period ended 31 March 2017 is reproduced.

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

##### **Limitation of Scope due to Opening Balances**

My audit report for the year ended 31 December 2015 was a Disclaimer of Opinion due to the limitation of scope on the opening balances. A number of general ledger accounts had unknown material amounts which related to prior years' opening balances. The unexplained opening balances had not been reconciled prior to migration from the former Magix accounting system to the current Pronto accounting system. I was unable to satisfy myself as to the accuracy and completeness of the opening balances of fixed assets, trade debtors, other current assets, asset revaluation reserve, trade payables, other payables and long term borrowings. Since the opening balances entered into the determination of the results of operations and cash flows of Water PNG for the period under review, I was unable to determine whether any adjustments to the results of operations, financial position and cash flows might have been necessary for the period ended 31 March 2017.

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**Physical Stock-take and Valuation of the Water PNG's Fixed Assets  
- K229,825,773**

Water PNG has not performed physical inspection and verification of its properties, plants and equipment during the period and prior years to verify their existence and condition. Therefore, I could not determine the accuracy and correctness of the property value and information on fixed assets being disposed, damaged or stolen. In addition, Deloitte Touche Tohmatsu had completed and presented valuation report on the properties, plants and equipment of Water PNG in April 2016. However, Water PNG has not passed revaluation journal entries and updated the Pronto Fixed Asset System. As a result, I could not confirm the existence, completeness, valuation and accuracy of Water PNG's properties, plants and equipment reported in the financial statements as at 31 March 2017.

**Fixed Assets in Arawa, Bougainville – K1,157,805**

Fixed assets held in Arawa, Bougainville at a value of K1,157,805 were included in the financial statements. These assets have been abandoned since the Bougainville crisis in 1989. During my review, I noted that Water PNG had not carried out any operational activities in the area since then, and most likely the assets are obsolete, damaged, misplaced or stolen. In 2015, the assets in Bougainville had been revalued to a K1 (one Kina) value with Board approval granted. However, the management has not taken up the Board approved valuation adjustments in the Fixed Asset System and General Ledger. As a result, I could not determine the appropriateness of the assets value being included in the financial statements for the 15 months period ended 31 March 2017.

**Financial Statements for Provincial Water Supply Projects**

Water PNG with the assistance of the National Government and the Asian Development Bank (ADB) initiated a number of Provincial Water Supply Projects (PWSP). I could not obtain all the relevant information and records relating to specific PWSP undertaken to determine their completion status and timely transfer to fixed assets. As a result, I could not determine the value of PWSP that might have been completed and capitalized in 2016 and the prior years, and consequential impacts this might have on the financial statements of Water PNG for the 15 months period ended 31 March 2017.

**Capital Works-In-Progress – K30,727,083**

*Note 7* to the financial statements included Work-In-Progress (WIP) at K30,727,083. I was not provided with lists and status reports of all projects that have been in progress at the time of this report.

Therefore, I could not perform the necessary audit procedures to substantiate the completeness, existence and accuracy of the value of WIP. Further, I could not determine whether there has been timely transfer of completed projects to proper fixed asset categories to which they relate. As a result, I could not conclude on the completeness and accuracy of the depreciation charged for the period and possible impacts this might have on the profit and loss account. Therefore, I was unable to comment on the correctness of the value of WIP as at 31 March 2017 and the depreciation charged to the profit and loss account.

**Other Current Assets: Prepayments – K2,509,191**

Included in *Note 3* to the financial statements was Prepayments valued at K2,509,191. My review revealed the account consisted of K1,852,493 in prepaid expenses and K656,694 in staff advances. The staff advances have been managed well through payroll and properly accounted for in the general ledger. However, no documentation was provided on the prepaid expenses balance of K1,852,493. As a result, I was unable to perform my review to ensure that they were being expensed timely when due. Therefore, I was unable to comment on the accuracy and completeness of the prepayment balance for the period ended 31 March 2017.

**Other Current Assets: Bond Fees – K429,740**

Included in *Note 3* to the financial statements was Bond Fees valued at K429,740. My review revealed that the account consisted of security bond fees paid for staff accommodation and office space rentals. I was not provided with the supporting documentations including the listing and reconciliation of the bond fees paid. As a result, I could not confirm the accuracy and completeness of the bond fees balance disclosed.

**Other Current Assets: Bank Suspense – (K3,579,232)**

Included in *Note 3* to the financial statements was Bank Suspense valued at (K3,579,232). My review revealed the account comprised of several other account balances as detailed:

Suspense Account	(K 318,997)
Magix OPB Account	(K2,771,432)
Cash In Bank (Do Not Post)	(K1,890,913)
Bank Suspense	K1,168,865
Cash Drawer Holding	K 92,094
Cash Drawer Adjustment	<u>K 141,159</u>
<b>Total</b>	<b><u>(K3,579,232)</u></b>

I noted that these accounts were not reconciled and no documentation was provided for my review to ascertain the correctness of the account balances. As a result, I was unable to verify the accuracy of the Bank Suspense balance of (K3,579,232) as disclosed in the financial statements.

**Other Current Assets: Sundry Debtors – K1,273,112**

Included in *Note 3* to the financial statements was Sundry Debtors valued at K1,273,112. I was not provided with all the required documentations including reconciliation to perform my review. Therefore, I could not confirm the accuracy, right to claim and completeness of the balance.

**Cash and Cash Equivalent: Petty Cash – K13,697**

Included in *Note 4(a)* to the financial statements was Petty Cash valued at K13,697. I noted from my review that the amount was not reconciled. I was not provided the petty cash count sheets and reconciliation statements of the petty cash held at various locations. Therefore, I was unable to confirm whether actual cash were on hand as at 31 March 2017.

**Inventories – K1,914,776**

The inventories of Water PNG was reported at K1,914,776 as at 31 March 2017. Listings and reports relating to inventory count performed were not provided for my review. Also, the general ledger account was not reconciled. In my 2013 audit, I reported that obsolete and rusted items were included in the inventory listings. No documents were available to confirm whether any action had been taken to resolve the issue. Therefore, I could not perform audit procedures to verify the accuracy of the inventories balance reported in the financial statements.

**Other Payables and Accruals: Payroll Accruals – K800,925**

Included in *Note 5(b)* to the financial statements was Payroll Accruals valued at K800,925. I was not provided with all the relevant documentations and reconciliation to confirm the balance. As a result, I was unable to perform my audit procedures to verify the accuracy of the payroll accruals disclosed in the financial statements.

**Other Payables and Accruals: Other Accrued Taxes – K1,169,227**

Included in *Note 5(b)* to the financial statements was Other Accrued Taxes valued at K1,169,227. The balance consisted of K610,901 in contract retention and business payment taxes withheld for remittance to the tax office. I was not provided with supporting documentations and reconciliation to execute my planned audit review. Therefore, I could not comment on the accuracy and completeness of the other accrued tax balance of K1,169,227 as disclosed.

**Other Payables and Accruals: Goods and Services Tax – K42,209**

Included in *Note 5(b)* to the financial statements was Goods and Services Tax (GST) valued at K42,209. I was not provided with the copies of the monthly GST returns filed with Internal Revenue Commission (IRC). Also, statement from the IRC and reconciliation of the GST were not provided for my review. As a result, I was unable to perform my planned audit procedures to confirm the accuracy and completeness of the goods and services tax balance of K42,209 disclosed in the financial statements.

**Other Payables and Accruals: Other Liabilities – K1,238,295**

Included in *Note 5(b)* to the financial statements was Other Liabilities valued at K1,238,295. This balance consisted of K937,350 in purchase clearing and unclaimed monies. I was not provided with supporting documentations including general ledger account reconciliation and report on outstanding purchase to verify the balance of K937,350. Consequently, I could not perform my planned audit procedures to confirm the accuracy and completeness of the other liabilities balance disclosed in the financial statements.

**Other Payables and Accruals: Accrued Expenses – K7,286,900**

*Note 5(b)* to the financial statements included Accrued Expenses of K7,286,900. However, I was not provided with all the relevant documentations including listings and reconciliation for the accrued expenses amounted to K7,286,900. As a result, I was unable to perform my audit procedures to verify the accuracy and completeness of the accrued expenses balance disclosed in the financial statements.

**Bonds and Refundable Deposits – K5,803,680**

*Note 6* to the financial statements included Bonds and Refundable Deposits of K5,803,680. I was not provided with the schedules or listing of items making up the balance. I therefore was unable to perform all my planned audit procedures to verify and ascertain the accuracy of the balance disclosed in the financial statements.

**Deferred Income - Current: Grants Received and not Spent – K11,721,008**

*Note 8(a)* to the financial statements disclosed grants received and not spent as K11,721,008. The amount has resulted from buildup of various payments received in advance and treated as a current liability. My review revealed that the account has not been maintained properly. There has been mixture of transactions captured in this account such as payments received in advance for water projects, license and compliance fees, material and equipment purchases and other various expenses. I was not provided with the listing and relevant documents of the advance payments and expenses made against each advance showing final balance outstanding on every advance received resulting in scope limitation. Therefore, I was unable to comment on the correctness of the balance disclosed.

**Deferred Income – Non-current: Grants Received and not Spent – K93,294 (debit balance)**

*Note 8(b)* to the financial statements disclosed grants received and not spent at K93,294 (debit). My review noted that the amount was a carried forward balance from the prior years without any movement. Also, the amount was in debit position as opposed to being in credit. Water PNG has not provided me with all the relevant documentations to support the balance. Therefore, I could not perform my planned audit procedures to confirm the accuracy of the balance.

**Depreciation Charges – K15,608,259**

*Note 7* to the financial statements disclosed depreciation charges for the period at K15,608,259. The amount was apportioned and K4,124,224 was charged against the Deferred Income – Grants Received and not Spent as disclosed in *Note 8(b)*. The amount charged to the deferred income relates to depreciation of fixed assets or project assets funded by donor partners. I was not provided with specific register of the fixed assets derived through donor funding from which the depreciation charges were calculated. Therefore, I was unable to perform my audit procedures to confirm the accuracy of the depreciation charged against the Grant Received and not Spent account from the donor funded fixed assets.

**DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of Water PNG for the fifteen (15) months period ended 31 March 2017.”

**61.2.2 Audit Observations Reported to the Ministers**

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of Water PNG for the year ended 31 December 2015 and for the period 1 January 2016 to 31 March 2017 were issued on 24 July 2018 and 21 June 2019 respectively. The reports contained similar observations, hence, only the report for the period ended 31 March 2017 is reproduced:

**General Ledger Account Reports**

The system generated general ledger transaction reports provided to me were not user-friendly. The format provided did not have details of suppliers, payment reference, transaction description and general ledger account totals for all business units combined. I requested for a better organized report but was not addressed due to system capacity issues.

A lot of time was spent sorting the transactions in order to get the transactions organized in a meaningful format to conduct my review of the accounts. Furthermore, some of the account balances from the report did not agree with the trial balance.

### **Land Titles**

I noted that Water PNG does not have title deeds for all the properties (lands and buildings) it owns. Water PNG was unable to provide proper listing of the lands and buildings it claimed to own. I brought this to the attention of management, and they responded that Water PNG had delivered the Master Files of the lands to the Lands Department with a request to issue land titles. The Management also advised that a Consultant would be engaged to pursue with the land title issue.

## **61.3 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 Water PNG for the period 1 April 2017 to 31 December 2017 and for the year ended 31 December 2018 were in progress.



**SECTION B**

**NATIONAL GOVERNMENT  
OWNED COMPANIES**



## 62. FOREWORD

This Section of my Report deals with Companies in which the Government of PNG holds more than 50% of the Issued Share Capital. On 26 January 1983, the *NEC's Decision No. 12/93* expanded my responsibilities to include the audit of National Government Owned Companies and subsidiaries thereof. The audit of Government Owned Companies is also conferred to me through *Section 3* of the *Audit Act*.

The auditing and reporting requirements of these companies are stipulated under *Section 200* of the *Companies Act*, which includes:

- (a) The work done by the auditor;
- (b) The scope and limitations of the audit;
- (c) The existence of any relationship the auditor has with the Company;
- (d) Whether all information and explanations required have been obtained;
- (e) Whether in the auditor's opinion, proper accounting records have been kept;
- (f) Whether in the auditor's opinion, the financial statements comply with generally accepted accounting practice and, where they do not, the respects in which they fail to comply; and
- (g) Whether in the auditor's opinion, the financial statements give a true and fair view of the matters to which they relate and, if not, the respects in which they fail to give such a view.

My audit of Government owned Companies is conducted in accordance with the requirements of the *Companies Act*. Under *Section 8 (2) of the Audit Act*, I am also expected to report to the Minister for Finance, the matters of significance to do with the accounts and records, the financial transactions and the assets and liabilities. The management of the Company are also informed of the same.

Comments in relation to the companies are detailed in paragraphs **63** to **77D**.



## **63. AIR NIUGINI LIMITED**

### **63.1 INTRODUCTION**

#### **63.1.1 Legislation**

Air Niugini Limited was incorporated under the *Companies Act*. It was formed to be the successor company of the National Airline Commission, following the NEC decision of 20 June 1996 to corporatise the National Airline Commission in accordance with *Section 45* of the *National Airline Commission Act*.

As a result of the NEC decision, all assets, liabilities, staff and operations of the National Airline Commission were transferred at the written down book value (as at 31 August 1996) to Air Niugini Limited. Air Niugini Limited is a 100% State Owned Company.

#### **63.1.2 Objectives of the Company**

The principal objectives of the Company are to:

- carry on the business of airline operators, general carriers, freight forwarders and forwarding agents, warehouse operators, shippers and general agents, ship owners charterers, hospitality and general traders, stevedores, cool store operators, flight contractors, carriers by land, air and water, insurers and insurance brokers and other business which may be usefully carried on in connection with such business;
- provide transport service, carrier freight transport, courier, taxi truck, light or heavy haulage and delivery services which involves the use of aircraft, railways, ship, road vehicle or any other means of conveyance by land, road, railway, sea, river, canal, water or air to carry and convey passengers, mails, containers, packages, parcels, bulk commodities, goods, merchandise, livestock and produce and property of every description;
- carry, collect, receive, load, unload, store, consign, distribute, transfer and deliver property of every description by any mode of transportation; and
- carry passengers by air, road, rail, land, sea or water and to operate any taxi service and to obtain any necessary licences for such purposes.

#### **63.1.3 Subsidiaries of the Company**

The Company has four (4) subsidiary companies. Comments in relation to the subsidiary companies are contained in paragraphs 63A, 63B, 63C and 63D of this Report.

## **63.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The Company had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit.

## **63A. AIR NIUGINI CARGO LIMITED (Subsidiary of Air Niugini Limited)**

### **63A.1 INTRODUCTION**

#### **63A.1.1 Legislation**

Air Niugini Cargo Limited was formerly known as Kitoro No. 94 Limited, which was incorporated on 23 March 2012 under the *Companies Act*. On 12 December 2016, the former name was changed to its current business name.

The Company formally commenced its operations in January 2017.

#### **63A.1.2 Objective of the Company**

The primary objective of the Company is to be a leader in cargo services and products of Air Niugini Limited and Link PNG Limited (subsidiary company of Air Niugini) within PNG and over the extensive international routes with other leading global service providers.

### **63A.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 2017 and 2018 for my inspection and audit.

## **63B. AIR NIUGINI PROPERTIES LIMITED (Subsidiary of Air Niugini Limited)**

### **63B.1 INTRODUCTION**

#### **63B.1.1 Legislation**

Air Niugini Properties Limited, formerly known as Kitoro No. 95 Limited was incorporated on 23 March 2012 under the *Companies Act*. The Company's name change formally came into effect on 24 January 2019.

The Company commenced its operations in December 2018 under the current company name.

#### **63B.1.2 Objective of the Company**

Primary objective of the Company is to grow Air Niugini's property portfolio in terms of property investment, development and improvement of current residential and commercial properties and acquisition of new Land and Buildings.

### **63B.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Company had not submitted its financial statements for the one month period ended 31 December 2018.



## **63C. BUSINESS TRAVEL CENTRE LIMITED (Subsidiary of Air Niugini Limited)**

### **63C.1 INTRODUCTION**

#### **63C.1.1 Legislation**

Business Travel Centre Limited was established on 27 October 2016. The Company was formerly known as Kitoro No. 98 Limited incorporated on 14 July 2014 under the *Companies Act*. The Company is a wholly owned subsidiary of Air Niugini Limited and commenced its operations effective from 16 December 2016.

#### **63C.1.2 Objective of the Company**

Primary objective of the Company is to expand the airlines' revenue base from that of selling purely Air Niugini and Link PNG, to selling full suite of PX products in addition to other airlines where traditionally PX was unable to sell/ticket, hence be the complete travel solution provider for all airlines, ancillary services, and "*All Things Travel*."

### **63C.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 2017 and 2018 for my inspection and audit.

## **63D. LINK-PNG LIMITED**

### **63D.1 INTRODUCTION**

#### **63D.1.1 Legislation**

The Link-PNG Limited came into existence on 26 June 2014 after the name changed from PNG Link Limited. Link-PNG Limited was incorporated under the *Companies Act* on 4 May 2010. This Company was bought by Air Niugini Limited from Steamships Limited on 5 August 2014 for a consideration of K100.

This Company is a 100% subsidiary of Air Niugini Limited. The Company commenced the business of air travel for the PNG Domestic markets since November 2014.

#### **63D.1.2 The Objective of the Company**

The key objective of the Company is to:

- be the leading domestic airline in Papua New Guinea, delivering safest and cost effective air travel to the communities.

### **63D.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The Company had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit.

## **64. BEMOBILE LIMITED**

### **64.1 INTRODUCTION**

#### **64.1.1 Legislation**

The Company was incorporated under the *Companies Act* on 4 March 2008 as a result of PNG Government deregulating mobile telephony. The mobile arm of Telikom PNG went into Bemobile and a group of investors took 51% equity in the business. In 2014, Bemobile entered into a partnership with Vodafone which gave Bemobile the right to use of “Vodafone” branding thereby creating the Bemobile-Vodafone brand in PNG.

In October 2016, KCH decided to buy the minority shareholding from Capital Way and Asian Development Bank (ADB) and Bemobile became a fully State Owned Enterprise.

#### **64.1.2 Objectives of the Company**

The objectives of the Company are to provide excellent mobile Voice and Data services to the citizens of PNG.

#### **64.1.3 Subsidiary of the Company**

The Company has a subsidiary, *Bemobile (Solomon Islands) Limited*. Comments in relation to this subsidiary are contained in paragraph 64A of this Report.

### **64.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and the audit of the accounts and records and the examination of the financial statement of the Company for the year ended 31 December 2018 was in progress.

## **64A. BEMOBILE (SOLOMON ISLANDS) LIMITED**

### **64A.1 INTRODUCTION**

#### **64A.1.1 Legislation**

The Company was registered under the *Solomon Islands Companies Act* on 26 January 2010 as Bemobile (Solomon Islands) Limited.

#### **64A.1.2 Objective of the Company**

The objective of the Company is to be a leader in Telecommunication offering high-speed data, reliable voice and SMS across the Solomon Islands.

### **64A.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and the audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2018 was in progress.

## **65. KUMUL AGRICULTURE LIMITED**

### **65.1 INTRODUCTION**

#### **65.1.1 Legislation**

This Company was incorporated under the *Companies Act* on 13 November 2017 as a wholly owned subsidiary of Kumul Consolidated Holdings Limited (KCHL).

On 15 August 2018, in accordance with *NEC Decision No. 221/2018* dated 2 August 2018, the Company has been established as a fully State Owned Enterprise through which Kumul Consolidated Holdings Limited holds the State's interest in all current and future agricultural assets, projects and investments.

The Company also takes over the shares and ownership interest in Livestock Development Corporation Limited from Kumul Consolidated Holdings Limited and the Department of Agriculture and Livestock including the functions, management and assets.

#### **65.1.2 Objectives of the Company**

The Company's principle activities are to:

- provide assistance to persons for purposes of primary production, for the establishment, development or acquisition of industrial or commercial undertakings;
- provide advice and assistance with a view to promoting the efficient organisation and conduct of primary production;
- act as an agent for the government in relation to any matter within the functions of the Company in the case of industrial or commercial undertakings;
- serve the rural population via the management and rehabilitation of plantations; and
- exporting of all cash crops in order to improve foreign exchange of the country.

### **65.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Company had submitted its financial statements for the year ended 31 December 2018 and arrangements were being made to commence the audit shortly.

## **66. KUMUL PETROLEUM HOLDINGS LIMITED**

### **66.1 INTRODUCTION**

#### **66.1.1 Legislation**

This Company was incorporated under the *Companies Act* on 4 March 2014 and was established in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Act 2015* the issued shares of the Kumul Petroleum Holdings Limited previously owned by Independent Public Business Corporation (IPBC) was transferred to the Kumul Petroleum Trustee. On 25 September 2015, the Company changed its name from NPCP Holdings Limited to Kumul Petroleum Holdings Limited.

#### **66.1.2 Objective of the Company**

Kumul Petroleum Holdings Limited and its wholly owned subsidiaries are the only group of State Owned Companies from which the State would nominate one or more of them to participate in all future Petroleum Projects as State nominee for the purposes of *Section 165* of the *Oil and Gas Act 1998*.

#### **66.1.3 Subsidiaries of the Company**

The Subsidiaries of the Kumul Petroleum Holdings Limited are; Eda Oil Limited, Kumul Exploration (Asia) Limited, Kumul Gas Foreland 239 B.V, Kumul Gas Foreland 261 B.V, Kumul Gas Foreland 268 B.V, Kumul Gas Foreland 269 B.V, Kumul Gas Niugini B.V, Kumul Lending Co Pte Limited, Kumul LNG Limited, Kumul Petroleum (Development) Limited, Kumul Petroleum (Investments) Limited, Kumul Petroleum (Kroton) Limited, Kumul Petroleum (Pipeline) Limited, Kumul Petroleum (Tech & Advisory) Limited, Kumul Petroleum Marketing Pte Limited, Kumul Security Agent Limited and NPCP Oil Company Pty Limited. Comments in relation to these Subsidiaries are contained in paragraphs 66A to 66Q of this Report.

### **66.2 AUDIT OBSERVATIONS**

#### **66.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2017 was issued on 18 September 2018. The report did not contain any qualification.

### **66.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2018 was in progress.

## **66A. EDA OIL LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)**

### **66A.1 INTRODUCTION**

This Company was incorporated under the *Companies Act*. The Company has two (2) shares and Petromin was the 100% shareholder of the Company. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Bill 2015*, Eda Oil Limited and Kumul LNG Limited were transferred to Kumul Petroleum (Development) Limited, a subsidiary of Kumul Petroleum Holdings Limited on 30 June 2016 by Petromin PNG Holdings Limited.

The Company has a direct participation in the Moran Petroleum Project, through 20.5% License Interest it directly holds in PDL 5 and an initial 11.275% Unit Interest in Unit Operation under the MUOA and an indirect participation in the PNG LNG Project through its holding of the only issued share in the share capital of Kumul LNG Limited.

#### **66A.1.2 Objective of the Company**

The main objective of the Company is to invest in the development and production of hydrocarbons in the Moran Joint Venture in Papua New Guinea.

### **66A.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 2017 had been completed and results were being evaluated awaiting signed financial statements.

At the 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 2018 was in progress.

## **66B. KUMUL EXPLORATION (ASIA) LIMITED** **(Subsidiary of Kumul Petroleum Holdings Limited)**

### **66B.1 INTRODUCTION**

#### **66B.1.1 Legislation**

The Kumul Exploration (Asia) Limited was incorporated in Singapore under the *Companies Act of Singapore* on 2 March 2017. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Exploration (Asia) Limited.

#### **66B.1.2 Objective of the Company**

The Company's main objective is service activities incidental to oil and gas extraction (excluding surveying and engineering design and consultancy services, supporting mining, oil and gas extraction and offshore exploration activities).

### **66B.2 AUDIT OBSERVATIONS**

#### **66B.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the period 2 March 2017 to 31 December 2017 was issued on 15 April 2019. The report did not contain any qualification.

### **66B.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 2018 was in progress.



## **66C. KUMUL GAS FORELAND 239 B.V (Subsidiary of Kumul Petroleum Holdings)**

### **66C.1 INTRODUCTION**

#### **66C.1.1 Legislation**

The Kumul Gas Foreland 239 B.V was incorporated in Amsterdam, Netherlands under the *Netherlands Civil Code* on 12 October 2011 (amended on 30 June 2017). Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Gas Foreland 239 B.V.

#### **66C.1.2 Objectives of the Company**

The Company's objectives are; to incorporate, to finance, to participate in, to manage and to supervise companies and other enterprises; to raise funds, to acquire, to dispose of, to manage, to exploit, to develop and to commercialise in any other way real estate, securities and other assets, including patents, permits, copyrights, trademarks, licenses, secret processes or formula's, designs and other industrial and intellectual property rights, to render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises, engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects and all this in the broadest sense.

### **66C.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 2017 and 2018 for my inspection and audit.

## **66D. KUMUL GAS FORELAND 261 B.V (Subsidiary of Kumul Petroleum Holdings Limited)**

### **66D.1 INTRODUCTION**

#### **66D.1.1 Legislation**

The Kumul Gas Foreland 261 B.V was incorporated in Amsterdam, Netherlands under the *Netherlands Civil Code* on 12 October 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Gas Foreland 261 B.V.

#### **66D.1.2 Objectives of the Company**

The Company's objectives are: to incorporate, to finance, to participate in, to manage and to supervise companies and other enterprises; to raise funds, to acquire, to dispose of, to manage, to exploit, to develop and to commercialise in any other way real estate, securities and other assets, including patents, permits, copyrights, trademarks, licenses, secret processes or formulas, designs and other industrial and intellectual property rights, to render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; and engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects and all this in the broadest sense.

### **66D.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 2017 and 2018 for my inspection and audit.

## **66E. KUMUL GAS FORELAND 268 B.V (Subsidiary of Kumul Petroleum Holdings Limited)**

### **66E.1 INTRODUCTION**

#### **66E.1.1 Legislation**

The Kumul Gas Foreland 268 B.V was incorporated in Amsterdam, Netherlands under the *Netherlands Civil Code* on 12 October 2011 (amended to 30-06-2017). Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Gas Foreland 268 B.V.

#### **66E.1.2 Objectives of the Company**

The Company's objectives are; to incorporate, to finance, to participate in, to manage and to supervise companies and other enterprises; to raise funds, to acquire, to dispose of, to manage, to exploit, to develop and to commercialise in any other way real estate, securities and other assets, including patents, permits, copyrights, trademarks, licenses, secret processes or formulas, designs and other industrial and intellectual property rights, to render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects and all this in the broadest sense.

### **66E.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 2017 and 2018 for my inspection and audit.

## **66F. KUMUL GAS FORELAND 269 B.V (Subsidiary of Kumul Petroleum Holdings Limited)**

### **66F.1 INTRODUCTION**

#### **66F.1.1 Legislation**

This Company was incorporated in Amsterdam, Netherlands under the *Netherlands Civil Code* on 12 October 2011 under the name of Kumul Gas Foreland 269 B.V. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Gas Foreland 269 B.V.

#### **66F.1.2 Objectives of the Company**

The objectives of the Company are to finance, to participate in, to manage and to supervise companies and other enterprises; to raise funds, to acquire, to dispose of, to manage, to exploit, to develop and to commercialise in any other way real estate, securities and other assets, including patents, permits, copyrights, trademarks, licenses, secret processes or formulas, designs and other industrial and intellectual property rights, to render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects and all this in the broadest sense.

### **66F.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 2017 and 2018 for my inspection and audit.

## **66G. KUMUL GAS NIUGINI B.V (Subsidiary of Kumul Petroleum Holdings Limited)**

### **66G.1 INTRODUCTION**

#### **66G.1.1 Legislation**

The Kumul Gas Niugini B.V was incorporated in Amsterdam, Netherlands under the *Netherlands Civil Code* on 12 October 2011 (amended on 11 May 2017). Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Gas Niugini B.V.

#### **66G.1.2 Objectives of the Company**

The Company's objectives are; to incorporate, to finance, to participate in, to manage and to supervise companies and other enterprises; to raise funds, to acquire, to dispose of, to manage, to exploit, to develop and to commercialise in any other way real estate, securities and other assets, including patents, permits, copyrights, trademarks, licenses, secret processes or formula's, designs and other industrial and intellectual property rights, to render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises, engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects and all this in the broadest sense.

### **66G.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 2017 and 2018 for my inspection and audit.

## **66H. KUMUL LENDING CO PTE LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)**

### **66H.1 INTRODUCTION**

#### **66H.1.1 Legislation**

The Kumul Lending Co Pte Limited was incorporated in Singapore under the *Companies Act of Singapore* on 8 August 2016. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Lending Co Pte Limited.

#### **66H.1.2 Objective of the Company**

The key objective of the Company is to undertake fund management activities.

### **66H.2 AUDIT OBSERVATIONS**

#### **66H.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the period 8 August 2016 to 31 December 2017 was issued on 15 April 2019. The report did not contain any qualification.

### **66H.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 2018 was in progress.

## **66I. KUMUL LNG LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)**

### **66I.1 INTRODUCTION**

#### **66I.1.1 Legislation**

This Company was incorporated under the *Companies Act* on 19 May 2009 under the name of Kumul LNG Limited. The Company has one (1) share and Eda Oil Limited is the sole shareholder of the Company. Eda Oil Limited is 100% subsidiary of Petromin PNG Holdings Limited that was established as a special purpose entity to hold Petromin's interests in the LNG Projects. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Bill 2015*, both Eda Oil Limited and Kumul LNG Limited were transferred to Kumul Petroleum Holdings Limited on 30 June 2016 by Petromin PNG Holdings Limited.

#### **66I.1.2 Objective of the Company**

The Company has 0.20% interest in the PNG LNG Project. The Project interest is connected to Eda Oil Limited's license interest in PDL 5 (20.5% License Interest in PDL 5) and the Moran Petroleum Project Interest.

### **66I.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 2017 had been completed and results were being evaluated awaiting 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 2018 was in progress.

## **66J. KUMUL PETROLEUM (DEVELOPMENT) LIMITED** **(Subsidiary of Kumul Petroleum Holdings Limited)**

### **66J.1 INTRODUCTION**

#### **66J.1.1 Legislation**

This Company was incorporated under the *Companies Act* on 19 September 2014 in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum (Development) Limited. On 25 September 2015, the Company changed its name from NPCP Pipeline and Gas Supply Limited to Kumul Petroleum Development Limited. The Company again had its name changed from Kumul Petroleum Development Limited to Kumul Petroleum (Development) Limited on 28 January 2016.

#### **66J.1.2 Objective of the Company**

The objective of the Company is to provide pipeline facilities to the upcoming various Liquefied Natural Gas (LNG) projects. In 2014, the Company purchased 100% shareholding in Cue PNG Limited at a cost of US\$7 million and changed the name to NPCP Oil Company Limited registered in Port Moresby, PNG.

### **66J.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 2017 had been completed and results were being evaluated awaiting 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 2018 was in progress.



## **66K. KUMUL PETROLEUM (INVESTMENTS) LIMITED** **(Subsidiary of Kumul Petroleum Holdings Limited)**

### **66K.1 INTRODUCTION**

#### **66K.1.1 Legislation**

This Company was incorporated under the *Companies Act* on 15 October 2014 in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum (Investments) Limited. On 25 September 2015, the Company changed its name from NPCP Investments Limited to Kumul Petroleum (Investments) Limited.

#### **66K.1.2 Objective of the Company**

The Principal objective of the Company is to hold the Independent State of Papua New Guinea's shareholding interest in Oil Search Limited and other Investments by the State in oil and gas in Papua New Guinea. In this respect, on 4 March 2014, the State acquired 10.01% shareholding (149,390,244 shares) in Oil Search Limited (OSL) at a price of AUD8.20 per share for a total consideration of AUD1.225 million. The funding for purchase of the State's interest in OSL was provided by UBS Australia. On 23 December 2014, the State transferred its 10.01% shareholding interest in OSL and the obligations arising from the loan facilities provided by UBS to Kumul Petroleum (Investments) Limited and Kumul Petroleum Holdings Limited.

### **66K.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 2017 had been completed and results were being evaluated awaiting 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 2018 was in progress.

## **66L. KUMUL PETROLEUM (KROTON) LIMITED** **(Subsidiary of Kumul Petroleum Holdings Limited)**

### **66L.1 INTRODUCTION**

#### **66L.1.1 Legislation**

This Company was incorporated under the *Companies Act* and was acquired by IPBC (now Kumul Consolidated Holdings) on 24 November 2008.

IPBC was approved as the State's nominee in the PNG Liquefied Natural Gas (PNG LNG) Project as resolved by *NEC in its Meeting No.36/2008* through *Decision No. 223/2008*. NPCP Holdings Limited (Now Kumul Petroleum Holdings Limited) is the 100% Shareholder of National Petroleum Company of PNG (Kroton) Limited as per *NEC Decision No. 108/2011* dated 7 July 2011, which came into effect in 2013. All the Company's shares held by IPBC were transferred to NPCP Holdings Limited in 2013. On 25 September 2015, the Company changed its name from National Petroleum Company of PNG (Kroton) Limited to Kumul Petroleum (PNG LNG) Limited. On 28 January 2016 the Company changed its name from Kumul Petroleum (PNG LNG) Limited to Kumul Petroleum (Kroton) Limited.

#### **66L.1.2 Objective of the Company**

The objective of Kumul Petroleum (Kroton) Limited is to invest in the PNG LNG Project as PNG State's nominee holding 16.57% equity in the Project.

### **66L.2 AUDIT OBSERVATIONS**

#### **66L.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2017 was issued on 18 September 2018. The report did not contain any qualification.

### **66L.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 2018 was in progress.

## **66M. KUMUL PETROLEUM (PIPELINE) LIMITED** **(Subsidiary of Kumul Petroleum Holdings Limited)**

### **66M.1 INTRODUCTION**

#### **66M.1.1 Legislation**

This Company was incorporated under the *Companies Act* on 30 October 2015 under the name Kumul Petroleum Pipeline Limited. On 28 January 2016, the Company changed its name to Kumul Petroleum (Pipeline) Limited. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum (Pipeline) Limited.

#### **66M.1.2 Objective of the Company**

The Company holds the interest of Kumul Petroleum Holdings Limited in the Western Pipeline (Strategic Pipeline) Project.

### **66M.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 2017 had been completed and results were being evaluated awaiting 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 2018 was in progress.

## **66N. KUMUL PETROLEUM (TECH & ADVISORY) LIMITED (Subsidiary of Kumul Petroleum Holdings Limited)**

### **66N.1 INTRODUCTION**

#### **66N.1.1 Legislation**

The Company was incorporated under the *Companies Act* on 8 September 2014 in accordance with the *NEC Decision No. 108/2011* dated 7 July 2011. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Technical Institute and Consulting Limited. On 25 September 2015, the Company changed its name from NPCP Technical Institute and Consulting Limited to Kumul Petroleum Technical Institute and Consulting Limited. Subsequently, the Company changed its name from Kumul Petroleum Technical Institute and Consulting Limited to Kumul Petroleum (Tech & Advisory) Limited on 28 January 2016.

In 2015, the Company bought 12.5% shares in Orion Enga Children's Fund JV Limited. Orion Enga Children's Fund JV owns the South Pacific Employment Institute registered as a business name and runs the Port Moresby Technical College (now known as Kumul Petroleum Academy).

#### **66N.1.2 Objective of the Company**

The principal objective of the Company is to provide professional and other business services.

### **66N.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 2016 and 2017 had been completed and results were being evaluated awaiting 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 2018 was in progress.

## **660. KUMUL PETROLEUM MARKETING PTE LIMITED** **(Subsidiary of Kumul Petroleum Holdings Limited)**

### **660.1 INTRODUCTION**

#### **660.1.1 Legislation**

The Kumul Petroleum Marketing Pte Limited was incorporated in Singapore under the *Companies Act* of Singapore on 28 April 2017. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Petroleum Marketing Pte Limited.

#### **660.1.2 Objective of the Company**

The Company is to be engaged in the Marketing of Liquefied Natural Gas, Condensate and other related products.

### **660.2 AUDIT OBSERVATIONS**

#### **660.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the period 28 April 2017 to 31 December 2017 was issued on 15 April 2019. The report did not contain any qualification.

### **660.3 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 2018 was in progress.

## **66P. KUMUL SECURITY AGENT LIMITED** **(Subsidiary of Kumul Petroleum Holdings Limited)**

### **66P.1 INTRODUCTION**

#### **66P.1.1 Legislation**

The Kumul Security Agent Limited was incorporated in Singapore under the *Companies Act* of Singapore on 31 August 2016. Kumul Petroleum Holdings Limited is the sole shareholder of Kumul Security Agent Limited.

#### **66P.1.2 Objective of the Company**

The key objective of the Company is to undertake fund management activities.

### **66P.2 AUDIT OBSERVATIONS**

#### **66P.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the period from 31 August 2016 to 31 December 2017 was issued on 15 April 2019. The report did not contain any qualification.

### **66P.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 2018 was in progress.

## **66Q. NPCP OIL COMPANY PTY LIMITED** **(Subsidiary of Kumul Petroleum Development Limited)**

### **66Q.1 INTRODUCTION**

#### **66Q.1.1 Legislation**

Cue PNG Oil Company Pty Limited, a subsidiary of Cue Energy Limited of Australia was incorporated in Australia under the *Companies Act* of Australia on 8 February 1996. This Company was bought by Kumul Petroleum (Development) Limited on 20 November 2014 at a cost of US\$7,109,144. The Company changed its name to NPCP Oil Company Pty Limited on 20 January 2015. Kumul Petroleum (Development) Limited (A subsidiary of Kumul Petroleum Holdings Limited) is the sole shareholder of NPCP Oil Company Pty Limited. The Company is now incorporated in PNG under *Companies Act* of PNG.

#### **66Q.1.2 Objective of the Company**

The principal objectives of the Company are exploration and production of hydrocarbons. The Company holds certain exploration and development licenses in PNG, namely PDL 3, PRL 14, PRL 19, and PL2.

### **66Q.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2015, 2016, 2017 and 2018 were in progress.

## **67. LIVESTOCK DEVELOPMENT CORPORATION LIMITED**

### **67.1 INTRODUCTION**

#### **67.1.1 Legislation**

The Livestock Development Corporation Limited was incorporated under the *Companies Act*. The share capital is wholly owned by the National Government.

#### **67.1.2 Functions of the Corporation**

The main activities of the Corporation are breeding and slaughtering cattle and pigs, purchasing and exporting insects, growing vegetables and fruits, and raising poultry.

### **67.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Corporation had not submitted its financial statements for the years ended 31 December 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 for my inspection and audit.

I expressed my concern to the Minister for Agriculture and Livestock through my letters dated 11 March 2015 and 26 April 2016 for the long delay by the Corporation in submitting its financial statements to enable me to perform the audit for the years stated above. I was not formally notified on the current status of the Corporation by the Minister.



## **68. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED**

### **68.1 INTRODUCTION**

#### **68.1.1 Legislation**

The Mineral Resources Development Company Limited (MRDC) was incorporated under the *Companies Act*. The Company is wholly owned by the National Government. The authorised capital of the Company was increased from 10,000 Ordinary Shares to 10,000,000 Ordinary Shares of K1 each in June 1992. An additional 4,906,015 shares were issued to the Independent State of PNG in June 1992, converting the Government grant and the shareholders loan to equity. The Company also acquired the Government's 20% interest in Misima Mines Limited.

#### **68.1.2 Objective of the Company**

The principal objective of the Company is to hold the Government's equity in mineral and petroleum development ventures within PNG.

### **68.2 AUDIT OBSERVATIONS**

#### **68.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2015 was issued on 1 May 2019. The report contained a Disclaimer of Opinion.

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

##### **Opening Balances**

My report for the year ended 31 December 2014 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances in respect of related party receivables, investments in Highlands Pacific Limited, investments in Coleman Properties, investments in Ramu Nickel and Short Term Deposits. Since these opening balances entered into the determination of the results of operations and cash flows of the Company and the Group in 2015, I was unable to determine whether adjustments to the financial position, results of operations and cash flows might have been necessary for the year ended 31 December 2015.

## Short Term Deposits

The statement of financial position as at 31 December 2015 reported short term deposits of K3.636 million in various banks for both the Company and the Group. The short term deposits comprised of a number of individual deposits with various financial institutions and in various currencies. The direct confirmations obtained from these financial institutions for the year ended 31 December 2015 varied from the amounts recorded by the Company and the Group. In aggregate, the amounts confirmed by the financial institutions were over by K0.490 million than that recorded in the statement of financial position of the Company and the Group. However, the financial statements have been adjusted to reflect the amounts as confirmed by the financial institutions through an adjustment to the income statement without proper reconciliation. Therefore, I was unable to determine whether the variances were related to unrecognised foreign exchange differences or other matters. As a result, I was unable to conclude on the appropriateness of the adjustment recorded and whether further adjustments to the financial statements might be necessary in respect of the variances identified.

## Foreign Currency Trading Account

Cash and bank balances for the Company and the Group as at 31 December 2015 included an amount of K1.297 million held in foreign exchange trading account. The initial documentation recorded a balance of K19.902 million in respect of this bank account and subsequently, material adjustments were made to reduce the balance to equate with the bank statement balance of K1.297 million. The recorded adjustments impacted the current payables in the statement of financial position as well as other gains in the statement of comprehensive income. I was not provided with sufficient appropriate audit evidence in respect of the adjustments made. Therefore, I was unable to determine whether adjustments to the financial statements may be necessary in respect of other gains reported in the statement of comprehensive income and cash at bank balance and current payables balance reported in the statement of financial position for the year ended.

## Investments

*Note 12* to the financial statements disclosed total investments at K452.563 million (Group) and K45.377 million (Company) as at 31 December 2015.

- Included is K406.165 million (Group) relates to the Group's interest in the Ramu Nickel Project. I have not been provided with sufficient appropriate audit evidence to verify the accuracy of the investment balance as at 31 December 2015 and the share of profit in the joint venture recorded in the statement of comprehensive income for the year then ended.

Further, indicators of impairment existed in respect of carrying value of this investments, however, management's impairment assessment has not been finalised at the time of this report. Consequently, I was unable to determine whether adjustments are required to the consolidated statement of financial position and statement of comprehensive income in respect of valuation of this investment.

- Included is K7.420 million (Company and Group) relates to an investment in Pacific International Hospital (PIH) which was acquired in 2013. The investments has been classified as an available for sale financial assets and the Company's accounting policy allows it to be carried at fair value, however, it has been recorded at cost in the financial statements of the Company. I was not provided with sufficient appropriate audit evidence to support the carrying value of the investments as at 31 December 2015. As a result, I was unable to determine whether adjustments to the financial statements might be necessary in respect of fair value gain or loss on investments in PIH reported in the statement of comprehensive income and the investment balance reported in the statement of financial position for the year ended.

### **Payables**

The statement of financial position of the Group and Company disclosed non-current payables at K20.171 million. Included in this amount was K15.58 million payable to related parties for which supporting documents to confirm the existence and accuracy of the balances were not made available for my review. Therefore, I was unable to determine whether adjustments to the financial statements might be necessary in respect of the recorded values of these balances for the year ended.

### **Carrying Liability**

The statement of financial position disclosed K384.802 million (Group) and K31.8 million (Company) as carrying liability, representing the Group's share of development costs in respect of Ramu Nickel Joint Venture. However, I was unable to obtain a confirmation of the loan balance from MCC Ramu Nickel Limited (MCC) or appropriate alternative audit evidence. As a result, I could not conclude on the completeness and accuracy of the carrying liability recorded in the statement of financial position as at 31 December 2015.

### **Income Tax**

The matters mentioned in the above qualifications could have impacted the financial performance of the Company and the Group and accordingly the basis for the calculation of the income tax position and deferred tax balance may not be accurate as disclosed in the financial statements. As a result, I was unable to determine the appropriateness of the income tax balances mentioned in *Note 8* to the financial statements.

## **Financial Statements Disclosures**

Due to the limitation of information availability, I was unable to comment whether the financial statements presented all matters that are required to be disclosed under *International Financial Reporting Standards (IFRS)* or the *Companies Act 1997*. As a result of the matters above, I was unable to determine whether any adjustments might have been found necessary to the statement of financial position as at 31 December 2015 or the statement of comprehensive income, statement of changes in equity, or the statement of cash flows for the year then ended.

## **DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs above, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of Mineral Resources Development Company Limited and its Subsidiaries for the year ended 31 December 2015.”

## **68.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The Company had not submitted its financial statements for the years ended 31 December 2017 and 2018 for my inspection and audit.

## **69. MOTOR VEHICLES INSURANCE LIMITED**

### **69.1 INTRODUCTION**

#### **69.1.1 Legislation**

The Motor Vehicles Insurance (PNG) Trust Limited was incorporated under the *Companies Act* following the *NEC Decision No. 4/98* of January 1998. It was formed to change the status of the then existing Motor Vehicles Insurance (PNG) Trust to conform to the intentions of the NEC for the then PNG Banking Corporation Holding Company No. 1 Limited to acquire the business of the Trust as part of the reform of the financial services sector.

The Trust was incorporated under the *Companies Act* as Motor Vehicles Insurance (PNG) Trust Limited (MVITL). The shares of this entity which were held by the Independent State of PNG were subsequently sold to the then PNG Banking Corporation, an entity also owned and controlled by the State.

On 31 December 1998, as part of the corporatisation and restructuring programme of the then PNG Banking Corporation Group, PNGBC Limited, PNGBC Holding Co. No. 1 Limited and Motor Vehicles Insurance (PNG) Trust Limited were amalgamated under the provisions of the *Companies Act* to form an amalgamated Company, PNGBC Limited. The ultimate parent Company of PNGBC Limited was Finance Pacific Limited, a Company wholly owned and controlled by the Independent State of PNG.

With effect from 1 January 1999, Motor Vehicles Insurance Limited (MVIL) was incorporated under the *Companies Act* to underwrite the third party insurance under the Act in succession to the Trust and MVITL.

The assets of MVITL immediately before the amalgamation with the then PNGBC Limited were transferred to MVIL when it took over the responsibility for providing third party insurance.

### **69.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **69.2.1 Comments on Financial Statements**

My reports in accordance with the provisions of the *Companies Act* on the Company's financial statements for the years ended 31 December 2017 and 2018 were issued on 31 July 2018 and 18 June 2019 respectively. The 2017 report did not contain any qualification. However, the 2018 report contained a Qualified Opinion and is reproduced.

## “BASIS FOR QUALIFIED OPINION

### Non-Consolidation of Subsidiaries

*Note 15 (iii)* to the financial statements disclosed Investment in subsidiaries as K73,956,993. The investment relates to 100% and 52% shareholding in Pacific MMI Limited and Pacific Re Limited respectively. I noted that the shareholdings in these subsidiaries as at 31 December 2018 exceeded 50% therefore, consolidated financial statements for the group is necessary as required by *IAS 27, Consolidated and Separate Financial Statements*. However, no consolidated financial statements had been prepared and submitted for my review. As a result, the Company had not complied with the requirements of *IAS 27*.

### Impairment of Investment in Subsidiary

In accordance with *IAS 36 Impairment of Assets*, an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If such indication exists, the Company shall estimate the recoverable amount of the asset and appropriately provide through the profit and loss account. However, Motor Vehicle Insurance Limited (MVIL) has reported K56,239,487 as investment in its subsidiary Pacific MMI Limited as at 31 December 2018. This carrying amount is higher than the unaudited investee’s net assets by K45,000,000. Further, a separate valuation had been done by Kumul Consolidated Holdings, the shareholder of MVIL and the report stated that the fair value of Pacific MMI Limited is between K15,000,000 to K29,000,000. This indicates the investment in the subsidiary was significantly impaired. However, the Company did not make necessary provision for the impairment by which it has not complied with *IAS 36, Impairment of Assets*.

## QUALIFIED OPINION

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

- (a) the financial statements of Motor Vehicles Insurance Limited for the year ended 31 December 2018:
  - (i) give a true and fair view of the financial position and the results of its operation and cash flows for the year ended on that date; and
  - (ii) the financial statements have been presented in accordance with the *Companies Act 1997, International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;
- (b) except as noted under the qualification paragraphs, proper accounting records have been kept by the Company; and

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

## 69.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2017 and 2018 were issued on 31 July 2018 and 18 June 2019 respectively. The reports contained similar observations, hence, only the 2018 report is reproduced:

### Non-Compliance with the notification issued on Investment Criteria

Motor Vehicles Insurance Limited (MVIL) is a successor company under the *Motor Vehicles (Third Parties Insurance) Act*. The Finance Minister, in accordance with powers granted by *Motor Vehicles (Third Parties Insurance) Act*, had laid down the following criteria with regard to the composition of investments made by MVIL:

	<u>Per Notification</u> <u>(Policy)</u>	<u>At 31-12-2018</u>
Government Securities	15%-25%	2.2%
Term Deposits	20%-30%	0.07%
Commercial Equities	25%-35%	81.27%
Property	20%-30%	-
Long Term Development Loans/Debentures	10%-20%	-
Subsidiaries	Nil	16.46%

From the above table, it is evident that MVIL has not complied with the criteria laid down in the notification.

Further, per investment policy the company should not invest in any one company more than 50% of the paid up capital of that company. However, MVIL has owned 100% equity in Pacific MMI Limited and 52% in Pacific Re Limited by which it has not complied with the investment policy.

I brought this matter to the attention of management in 2014 and I have since been advised that:

*“the 50% of the shares in Pacific MMI going to be disinvest to prospective buyer.”*

### Salary Sacrifice

I noted that certain amount from staff salary sacrifice was paid to tertiary institutions, which in my view is not appropriate. The *Internal Revenue Commission (IRC) Circular TC2016/1* clearly set out the requirements of salary and wages tax including salary packaging and the *Tax Act* requirements both legally and administratively.

However, the school fees paid to tertiary institutions as salary sacrifice is outside of *IRC Circular* and *Section 29(1) (i)* of the *Income Tax Act*. The payments of school fees through salary sacrifice covers up to Grade 12 and not for tertiary institutions. Therefore, the allowance paid as sacrificed should be taxed through payroll.

I brought this matter to the attention of management last year and I have since been advised that:

*“the management has addressed this issue by engaging an accounting firm to review the salary sacrifice structure of MVIL’s employees.”*

### **Non-Compliance with Income Tax Act**

No completed variation forms from the Internal Revenue Commission relating to the exemption of motor vehicle and housing allowances (other than those who participate in NHOS) were made available for my verification. As a result, I was unable to determine whether appropriate taxes have been deducted from the payments of K3,567,368 and K335,768 as housing and motor vehicle allowances respectively during the year as to comply with the *Income Tax Act*.

I brought this to the attention of the management and I have since been advised that:

*“due to previous management oversight, this area has been ignored and therefore, a lot of the affected staff have enjoyed the gross benefits without any tax deductions reducing the take home benefit.”*

### **Provision for Sick Leave**

I noted during my review that *clause 20(b)* of the employment contract of senior managers contained provision of sick leave entitlement and further provided that staff can cash the sick leave entitlement whether they are sick or not. As a result of this contractual obligation, accrued sick leave of contract officers were brought forward and encashed at new contract or beginning of the following year. However, cashing of sick leave does not comply with *IAS 19 Employee Benefits*, which states that unused sick leave can be carried forward for one calendar year only after which the provision must be written off.

I brought this to the attention of management and they responded that:

*“over the years and in line with HR policy, contract officers have been entitled to redeem in full or otherwise the remainder of the un-used sick leave balance on or after the employment anniversary dates. Therefore, we believe this could be treated in the same line with other employment benefits.”*



## **70. NATIONAL AIRPORTS CORPORATION LIMITED**

### **70.1 INTRODUCTION**

#### **70.1.1 Legislation**

National Airports Corporation Limited was incorporated under the *Companies Act*. The Company had begun operations in October 2009 after its incorporation on 6 October 2009. This Company was established in accordance with *Section 132* of the *Civil Aviation Act 2000 (as amended)*.

National Airports Corporation Limited is regulated by the *Civil Aviation Authority Act 2000 (as amended)* as a Company having its own operating certificates. Except for the governance requirements specified in the *Civil Aviation Act*, it operates independently. The two shares issued by the Company are equally held by the Minister for Civil Aviation and the Minister for Finance on behalf of the Independent State of Papua New Guinea.

#### **70.1.2 Functions of the Corporation**

The functions of the National Airports Corporation Limited are derived from *Section 132* of the *Civil Aviation Act*.

#### **70.1.3 Subsidiaries of the Corporation**

The Corporation has two subsidiary companies; *Airport City Development Limited* and *Airports Investments Limited*. Comments in relation to these companies are contained in paragraphs 70A and 70B of this Report.

## **70.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **70.2.1 Comments on Financial Statements**

My reports in accordance with the provisions of the *Companies Act* on the Company's financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 were issued on 7 August 2018. My reports for the years ended 31 December 2016, 2017 and 2018 were issued on 27 September 2018, 30 October 2018 and 24 June 2019 respectively. The reports for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 contained Qualified Opinions while the reports for the years ended 31 December 2017 and 2018 are disclaimed, hence, only the 2018 report is reproduced.

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

### **Opening Balances and Comparative Amounts**

My report for the year ended 31 December 2017 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances and comparative amounts in the financial statements. Since these opening balances entered into the determination of the results of operations, equity movement and cash flows of the Company in 2018, any adjustments that are found to be necessary on such opening balances would have a consequential effect on the financial performance, equity movements and cash flows for the year ended 31 December 2018. I was unable to determine whether any such adjustments might be necessary for the year ended 31 December 2018 and the comparative financial performance, equity movements and cash flows for the year ended 31 December 2017.

### **Property and Equipment not recognized in the Financial Statements**

*Note 21* to the financial statements of the Company stated that a significant number of property and equipment items were succeeded from the Civil Aviation Authority in 2009. These assets consist mainly of land, buildings, and airport infrastructures located in various provinces of Papua New Guinea. The total value of these assets based on the draft valuation report of K1,439 million as at 31 December 2009 would likely represent substantial proportion of the Company's and Group's total assets. However, the Company is still in process of reviewing and validating the preliminary valuation results.

The Company has been in the process of calculating appropriate adjustments to accumulated depreciation, depreciation expenses and impairment allowances. In addition, ownership rights for some of these assets were disputed by other parties and the Company was unable to provide a complete list of assets whose ownership rights were disputed.

As a result, the property and equipment balance for the Company and the Group are incomplete in the 2018 financial statements with corresponding misstatements in the cumulative equity, depreciation and tax balances accumulated for several years. It was impractical for me to determine the value of unrecognized property and equipment as at 31 December 2018 and 31 December 2017, and as such, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018 and 31 December 2017, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018, and for the comparative year ended 31 December 2017.

## Physical Verification of Property and Equipment

The Company is yet to perform a full physical verification of property and equipment to confirm the existence of assets included in the financial statements. In 2018 the Company performed an assets verification exercise on 2 of 22 airports. The Company's review and reconciliation of the verification exercise results with the Fixed Assets Register and preliminary valuations results are in progress. I was therefore, unable to perform physical verification over the existence of property and equipment as at 31 December 2018 and 31 December 2017, and as such, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2018 and 31 December 2017, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018.

## CADIP Assets, Liabilities and Cash Flows

National Airport Corporation is the implementation agency for the Civil Aviation Development Investment Program (CADIP), a project funded by ADB and Government of PNG which has been developed to revitalise and maintain the Country's civil aviation network, including its 22 airports. The Company is the legal owner of all CADIP's assets, controls CADIP's operational activities, and almost all the assets constructed by CADIP are transferred to the Company's Fixed Assets Register after their construction is completed. The Company has not included CADIP's project assets, liabilities, expenses and cash flows in the financial statements, except for the CADIP's GST receivable balance of K48 million (2017: K41 Million) and salaries and wages tax payable of K5 million (2017: K nil). The preliminary and unaudited amounts included in CADIP project's financial statements but not included in the Company's and Group's 31 December 2018 and 31 December 2017 financial statements are as follows:

Cash at Bank	: K 1.6 million (2017: K4.5 million);
Trade creditors and accruals	: K44 million (2017: K37.8 million);
Funding revenue	: K208 million (2017: K113 million);
Assets under construction	: K544 million (2017: K289.6 million);
Retention payable	: K21 million (2017: K8.7 million);
Other receivables	: K5 million (2017: K0.5 million);
Equity	: K540 million (2017: K444.5 million);
GST receivable from Internal Revenue Commission (IRC)	: K48 million (2017: K41 million).

As CADIP does not prepare its IFRS financial statements, it is impractical for me to determine what adjustments might be necessary to the statement of financial position at 31 December 2018 and 31 December 2017, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2018, and for the comparative year ended 31 December 2017.

## DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of National Airports Corporation Limited for the year ended 31 December 2018.”

### 70.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2012, 2013, 2014 and 2015 were issued on 7 August 2018. My reports for the years ended 31 December 2016, 2017 and 2018 were issued on 27 September 2018, 30 October 2018 and 24 June 2019 respectively. These reports contained similar observations, hence, only the 2018 report is reproduced:

#### Non-aeronautical Revenue

K21,885,737 was disclosed as total non-aeronautical revenue in the financial statements for the year ended 31 December 2018. Some of the lease agreements were not current from which significant amount of non-aeronautical revenue had been recognised in the financial statements, which are still being negotiated with the lessees. Also, the Company was unable to provide certain signed lease agreements for my review to determine whether the revenue recorded was accurate and complete.

I brought this to the attention of management and they advised that:

*“management have now put in place the following controls:*

- (i) Fortnightly meetings held by accounts receivable team and commercial team and update the MANCOM.*
- (ii) Master list of lease agreement created and maintained.”*

However, I was not provided with the signed lease agreements for which negotiations were in the process at the time of my report.

#### Annual Leave Accrual and Long Service Leave Accrual

The Company and Group recorded K1,616,580 as annual leave accrual and K5,391,258 as long service leave accrual as at 31 December 2018. I was unable to reconcile the input data with underlying employment contracts and quantify the error in the remaining population.

I brought this to the attention of management and they responded that:

*“the process will be tracked as soon as iChris goes on live and is in use.”*

### **Establishment of Audit Committee and Internal Audit Division**

I noted that the operational activities of National Airport Corporation (NAC) had increased significantly in managing more airports, development projects and with a diversified role in managing the organizational activities. Therefore, it is important that the increased investments and operating activities are managed within a framework that ensures transparency and diligence.

Since NAC’s responsibility has increased in managing the State assets, its exposure to risk is very high. However, at present there is non-existence of an Internal Audit Division. Though an Audit Committee was established in 2010, no report was prepared for deliberation in the committee meetings since no internal audit staff was engaged. Therefore, I recommended NAC for the establishment of an internal audit division for operating in a transparent manner and diligently.

I brought this to the attention of management and they advised that:

*“terms of reference is done and presently reviewed by an accounting firm and implementation is yet to take place.”*

## **70A. AIRPORT CITY DEVELOPMENT LIMITED (Subsidiary of National Airports Corporation Limited)**

### **70A.1 INTRODUCTION**

#### **70A.1.1 Legislation**

The Airport City Development Limited was incorporated on 20 August 2009 and was deregistered on 20 April 2010. However, the Company was reinstated on 19 September 2011 as a subsidiary company of the National Airports Corporation Limited. The Company came into operation on 19 September 2012.

#### **70A.1.2 Charter of the Company**

The Company was incorporated to establish and manage the design, construction and operating stages of the Airport City Project to ensure economic, technically sound and expeditious completion of the Project.

### **70A.2 AUDIT OBSERVATIONS**

#### **70A.2.1 Comments on the Financial Statements**

My reports in accordance with the provisions of the *Companies Act* on the Company's financial statements for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 were issued on 7 August 2018. The reports for the years ended 31 December 2017 and 2018 were issued on 30 October 2018 and 24 June 2019 respectively. The reports contained similar Disclaimer of Opinions, hence, only the 2018 report is reproduced.

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

##### **Opening Balances and Comparative Amounts**

My report for the year ended 31 December 2017 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances and comparative amounts in the financial statements. Since these opening balances entered into the determination of the results of operations, equity movement and cash flows of the Company in 2018, any adjustments that are found to be necessary on such opening balances would have a consequential effect on the financial performance, equity movements and cash flows for the year ended 31 December 2018. I was unable to determine whether any such adjustments might be necessary for the year ended 31 December 2018 and the comparative financial performance, equity movements and cash flows for the year ended 31 December 2017.

**Basis of Preparation**

As indicated in *Note 3*, the financial statements of the Company were prepared on the going concern basis. However, a decision has already been made to liquidate the Company and the going concern assumption underlying the preparation of these financial statements is no more appropriate. This is not in accordance with the *International Financial Reporting Standards* and the *Companies Act 1997*. The financial statements do not contain adjustments and disclosures reflecting the fact that the going concern assumption is no more appropriate.

**DISCLAIMER OF OPINION**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of Airportcity Development Limited for the year ended 31 December 2018.”

## **70B. AIRPORTS INVESTMENTS LIMITED (Subsidiary of National Airports Corporation Limited)**

### **70B.1 INTRODUCTION**

#### **70B.1.1 Legislation**

The Airports Investments Limited is a wholly owned subsidiary of the National Airports Corporation Limited. The Company was initially registered as Helios No. 129 Limited on 23 October 2014 under the *Companies Act*. The Company changed its name to Airports Investments Limited on 27 April 2015. The Company commenced its operations on 1 January 2016.

#### **70B.1.2 Objective of the Company**

Primary objective of the Airports Investments Limited is to maximize full utilization of airport assets to generate revenue to support core airport activities relating to safety and security.

#### **70B.1.3 Functions of the Company**

Functions of the Company include: utilization of large assets base of the airports to realize large revenue potential; generating revenue to fund the operations of the terminal facilities and runways; and utilizing return from commercialising the airport assets to assist rural airstrips.

### **70B.2 AUDIT OBSERVATIONS**

#### **70B.2.1 Comments on Financial Statements**

My reports in accordance with the provisions of the *Companies Act* on the Company's financial statements for the years ended 31 December 2016, 2017 and 2018 were issued on 27 September 2018, 30 October 2018 and 24 June 2019 respectively. The reports did not contain any qualifications.



## **71. NCD WATER AND SEWERAGE LIMITED (Trading as Eda Ranu)**

### **71.1 INTRODUCTION**

#### **71.1.1 Legislation and Objectives of the Company**

The NCD Water and Sewerage Limited was incorporated on 23 February 1996 under the *Companies Act*. The *National Capital District Commission (Transfer of Assets) Act 1996* provided for the vesting in the Company of the assets required for the supply of treated water and the treatment of sewerage from the NCDC.

#### **71.1.2 Functions of the Company**

The principal functions of the Company are to provide the supply of treated water, and the treatment and disposal of sewerage within the NCD.

### **71.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2015 was completed and results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2016 and 2017 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **72. PAPUA NEW GUINEA PORTS CORPORATION LIMITED (Formerly PNG Harbours Limited)**

### **72.1 INTRODUCTION**

#### **72.1.1 Legislation**

PNG Harbours Limited was incorporated under the *Companies Act* on 19 June 2002 in accordance with the privatisation policy approved by the NEC in 1999. The Company changed its name to Papua New Guinea Ports Corporation Limited on 7 March 2006.

#### **72.1.2 Functions of the Company**

The general functions of PNG Ports Corporation Limited include the regulation, management, control and operation of declared ports; the movement of shipping therein; and the maintenance of light ships, buoys, beacons, moorings, wharves, docks, piers, jetties, landing stages, slips, landing ramps and platforms.

### **72.2 AUDIT OBSERVATIONS**

#### **72.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2017 was issued on 20 September 2018. The report did not contain any qualification.

### **72.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2018 was in progress.

## **73. PNG AIR SERVICES LIMITED**

### **73.1 INTRODUCTION**

#### **73.1.1 Legislation**

PNG Air Services Limited was incorporated under the *Companies Act* and commenced operation in January 2008 after its incorporation on 30 April 2007. The Company was established in accordance with *Section 143(6) of the Civil Aviation Act 2000 (as amended)* which envisaged the establishment of a Company to deliver “*air traffic services, aeronautical navigation services and aeronautical communication services and all related services in Papuan New Guinea and the airspace for which it is responsible.*”

PNG Air Services Limited as a State Aviation Enterprise (SAE) is an independent self-funding Company. The two shares issued by the Company are equally held by the Minister for Civil Aviation and the Minister for Finance on behalf of the Independent State of Papua New Guinea. The Company has its own operating certificates and operates independently from other Aviation Entities established under the *Civil Aviation Act 2000 (as amended)*.

#### **73.1.2 Functions of the Company**

PNG Air Services Limited was established with a purpose of delivering safe and efficient air navigation services to the aviation industry and the travelling public. It ensures provision of quality Communication, Navigation, Surveillance (CNS) and Air Traffic Management (ATM) services to both domestic and international customers who operate within the PNG airspace, at a reasonable cost, hence to be a leader in providing world standard air navigation services. PNG Air Services Limited makes sure that the radio coverage in PNG both VHF and HF are improved and that efficient and effective air traffic services are maintained.

### **73.2 STATUS OF FINANCIAL STATEMENTS**

The Company had advised me as per the letter dated 14 November 2016 that it would appoint its own auditor for the 2016 audit. However, I advised the Company of my responsibility under *Section 214(3)* of the Constitution of the Independent State of PNG, to inspect and audit and report to Parliament on all bodies set up by an Act of Parliament.

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2016, 2017 and 2018 for my inspection and audit.

## **74. PNG DATACO LIMITED**

### **74.1 INTRODUCTION**

#### **74.1.1 Legislation**

The PNG DataCo Limited came into existence on 2 December 2010 after the name was changed from Whittlesea Limited. Whittlesea Limited was incorporated under the *Companies Act* on 21 April 2010.

On 6 February 2014, the National Executive Council (NEC) in its *Decision No: 32/2014* approved for immediate operations of the PNG DataCo Limited as a 100% Majority State Owned Enterprise (SOE) to oversee and implement the National Transmission Network (NTN) Impact Project Strategy and Objectives as approved by the NEC *Decision No: 268* of 2010, NEC *Decision No: 107* of 2011 and NEC *Decision No: 108* of 2012.

PNG DataCo Limited is governed by the *Companies Act*, the *Independent Public Business Corporation of PNG Act*, and the regulator – *National Information and Communication Technology Authority Act*. The Company came into operations in February 2014.

#### **74.1.2 Objectives of the Company**

The key objectives of the Company are to:

- work towards the PNG Government's Policy on ICT to refurbish the existing transmission network, extend its availability across the country, allow new transmission networks to develop, and to increase technical capabilities to support high-speed broadband;
- develop the National Transmission Network (NTN) as the efficient domestic and international telecommunication transmission network and that the NTN is available on a wholesale and non-discriminatory basis to all licensed operators of the telecommunication industry to stimulate and foster social and economic developments in Papua New Guinea using State Owned assets and new network investments;
- provide internet gateway services at the international gateway;
- improve the availability of broadband transmission telecommunication services within PNG and internationally;
- improve performance of telecommunication services in terms of responsiveness;
- lower the cost of telecommunication services to end users; and
- ensure the current network operations are scalable, standardise network and IT, invest in required capabilities to build low-cost position, develop deal making capabilities, and best-in-class execution capabilities.

### 74.1.3 Functions of the Company

The main functions of the Company are to:

- develop the National Transmission Network (NTN) as the efficient domestic and international transmission network; and
- supply high value and market driven suite of data services on a wholesale and non-discriminatory basis to all licensed operators and ISPs (i.e. holders of a Network or applications licenses) leveraging its exclusive network asset base.

## 74.2 AUDIT OBSERVATIONS

### 74.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the year ended 31 December 2015 was issued on 6 May 2019. The report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

The financial statements disclosed that the carrying value of property, plant and equipment was K163.1 million as at 31 December 2015, of which K161.7 million was fibre optic lines and associated construction in progress. In accordance with *IAS 36, Impairment of Assets*, an entity shall assess at the end of each reporting period whether there is any indication an asset may be impaired. If such indication exists, the entity shall measure the recoverable amount of the asset and compare the recoverable amount of the asset to its carrying amount. If the carrying amount exceeds the recoverable amount of the asset an impairment charge is to be recorded.

Based on my audit procedures, I identified evidence to support the existence of impairment indicators of the fibre optic lines asset at 31 December 2015. However, the Company has not performed an impairment assessment as required by *IAS 36*. Also, the Company has not prepared information to enable assessment of the recoverable amount of its fibre optic lines asset as at 31 December 2015. I was unable to obtain sufficient appropriate audit evidence to assess whether the carrying amount of the fibre optic lines asset exceeds the recoverable amount for the year end. As a result, I was unable to satisfy myself on the accuracy of the carrying value of the property, plant and equipment as at 31 December 2015 and any impairment loss to be recognised in the profit and loss account for the year ended. Consequently, I was unable to determine whether any adjustments to these amounts were necessary.

## QUALIFIED OPINION

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

- (a) the financial statements of PNG DataCo Limited for the year ended 31 December 2015:
  - (i) give a true and fair view of the financial position and the results of its operation and cash flows for the year ended on that date; and
  - (ii) the financial statements have been presented in accordance with the *Companies Act 1997, International Financial Reporting Standards* and other generally accepted accounting practices in Papua New Guinea;
- (b) proper accounting records have been kept by the Company; and
- (c) I have obtained all the information and explanations as required.

## OTHER MATTER

### *Compliance with Public Finances (Management) Act 1995*

The financial statements for the year ended 31 December 2015 were approved and issued on 24 April 2019 and submitted to me thereafter. The Directors did not meet the deadline set by *Section 63 of the Public Finances (Management) Act 1995* for audited financial statements of Public Bodies/Companies owned by the State to be furnished to the Minister before 30 June of the subsequent year.”

## 74.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was in progress.

The financial statements of the Company for the year ended 31 December 2017 had been submitted and arrangements were being made to commence the audit shortly.

The Company had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## 75. PNG POWER LIMITED

### 75.1 INTRODUCTION

#### 75.1.1 Legislation

PNG Power Limited (PPL) was incorporated by the Privatisation Commission under *Section 3(1)* of the *Electricity Commission (Privatisation) Act 2002* as the successor company to the PNG Electricity Commission (*ELCOM*), a statutory corporation established under the *Electricity Industry Act (Chapter 78)*.

- the *Electricity Commission (Privatisation) Act* transferred to PNG Power Limited:
  - (i) all of *ELCOM*'s right, title and interest to any and all assets other than those transferred to PNG Dams pursuant to item *1(a)* and *(c)*, including, without limitation, the electricity generation assets located in the areas of Sirinumu Dam and Yonki Dam;
  - (ii) all of *ELCOM*'s liabilities other than those transferred to PNG Dams pursuant to item *2(b)*; and
  - (iii) all water use permits held by *ELCOM* and referred to in *Section 7(1)* of the *Act*.
- transferred all of the employees of *ELCOM* to the employment of PNG Power Limited;
- declared PNG Power Limited as a “*Specified Entity*” for the purposes of *Section 8* of the *Act*;
- in accordance with the privatisation policy of the Privatisation Commission, all the issued shares of PNG Power were transferred to the Privatisation Commission (and deemed transferred to the successor to the Privatisation Commission, the Independent Public Business Corporation of Papua New Guinea (IPBC of PNG) as the trustee of the General Business Trust under the *Independent Public Business Corporation of Papua New Guinea Act*; and
- the consideration for the transfers referred to in items (i) and (ii) was nil.

#### 75.1.2 Functions of the Company

The functions of the Company are to plan and co-ordinate the supply of electricity throughout the country; to generate, transmit, distribute, reticulate and sell electricity; and to provide to the public bodies and the State, services related to sale, consumption and use of electricity.

## 75.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 75.2.1 Comments on Financial Statements

My reports to the Ministers in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2016 and 2017 were issued on 1 August 2018 and 1 May 2019 respectively. The reports contained similar Disclaimer of Opinions, hence, only the 2017 report is reproduced.

#### “BASIS FOR DISCLAIMER OF OPINION

##### Opening Balances

My report for the year ended 31 December 2016 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of capital work in progress, property, plant and equipment, trade receivables, trade creditors, inventories, other payables, other receivables, employee entitlements, other provisions and tax balances. Since these opening balances entered into the determination of the results of operations and cash flows of the Company in 2017, I was unable to determine whether adjustments to the financial position, results of operations, cash flows and changes in equity might have been necessary for the year ended 31 December 2017.

##### Revaluation of Land and Building

Included in the carrying value of property, plant and equipment reported as K1,845.2 million as at 31 December 2017 was land and building valued K302.60 million. The Company has elected to adopt revaluation model as its accounting policy and carried its *Property, Plant and Equipment* at fair value. However, the Company has not performed a fair valuation of its land and building as at 31 December 2017.

Also, the Company has not performed an assessment as to the continuing appropriateness of fair valuation of land and building performed in prior periods and used as a basis for the carrying amount of the land and building reported in the financial statements as at 31 December 2017.

Therefore, I was unable to attest the reasonableness of the fair value of the land and building as at 31 December 2017.

##### Impairment of Property, Plant and Equipment

In accordance with IAS-36, *Impairment of Assets*, an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If such indication exists, the Company shall estimate the recoverable amount of the asset.



I was not provided with an impairment assessment performed by the Company as at 31 December 2017. As a result, I was unable to satisfy myself as to the appropriateness of the carrying values of property, plant and equipment as at 31 December 2017 and whether any impairment loss may be required for the year then ended.

### **Accounting for Power Purchase Agreements**

The Company assessed that it has certain power purchase agreements which would qualify as finance lease as at 31 December 2017. However, these power purchase agreements have not been accounted for in accordance with *IAS 17, Leases*. In 2017, K209 million was recognised in the profit and loss statements (included in direct expenses) pertaining to power purchase agreements. As such, I was unable to satisfy myself whether the assets and liabilities and the related expenses were fairly stated as at 31 December 2017.

### **Adequacy of Allowance for Doubtful Debts**

The Company reported a provision for doubtful debts of K39 million in respect of trade and other receivable for the year ended 31 December 2017. However, I was not able to obtain reasonable assurance on the completeness or calculation accuracy of the trade receivable aging reports generated by the Company's Gentrack Billing System as at 31 December 2017. Therefore, I was unable to attest the adequacy of allowance for doubtful debts.

### **Trade and Other Receivables**

Manual journals totalled K27.9 million was recorded at 31 December 2017 to reduce the reported amount of advances to suppliers (including prepaid bank draft in other receivables) as at balance sheet date. These adjustments were recorded on the basis that advances to suppliers were made in prior financial years which the Company could not substantiate any further supplies or services would be received. Corresponding adjustments were made to various General Ledger accounts relating to goods received not invoiced, trade creditors, and bank charges. I was unable to obtain sufficient and appropriate audit evidence to ascertain that the resulting adjustments were reasonable.

### **Trade and Other Payables and Related Operating Expenses**

*Note 9* to the financial statements disclosed trade and other payables totalled K303.1 million as at 31 December 2017. I was not able to obtain sufficient appropriate audit evidence to confirm the completeness of recorded trade payables due to the following reasons:

- unreconciled and unexplained variance existed between supplier statements and their respective payable balances in the subsidiary ledger amounted to K67.212 million; and
- I was not provided with appropriate audit evidence to support other payables valued at K34.0 million.

Accordingly, I was unable to confirm the completeness of the carrying value of trade and other payables as at 31 December 2017 and related operating expenses for the year ended.

### **Employee Benefits**

#### ***Measurement of provision for other long term employee benefits***

*Note 10* to the financial statements disclosed the Company's long-term obligation to its employees at K46.6 million. The provision for employee benefits included long service leave, ex-gratia payments and other employee benefits.

The Company has been measuring these other long-term employee benefits at undiscounted value of the entitlements which was a departure from *IAS 19, Employee Benefits*. In accordance with the revised *IAS 19, Employee Benefits*, the amount recognised as liability for other long-term employee benefits should be the net present value of the defined benefit obligation.

Further, the Company has not provided me with an actuarial valuation report for the other long-term employee benefits. As a result, I was unable to verify the accuracy, completeness and valuation of the other long-term benefits included in the provision for employee benefits.

Accordingly, I was unable to obtain sufficient appropriate audit evidence to confirm the accuracy, completeness and valuations of the carrying value of employee provisions reported at K46.6 million as at 31 December 2017, and quantify any potential impact on operating expenses in the comprehensive income for the year ended.

### **Income Tax Effect Account**

I was provided with a tax calculation to support the income tax balances. However, I was not provided with the supporting information and reconciliations to consider the reasonableness of the inputs used in the calculation. Further, due to the qualifications in the revenue and operating expenses, I was unable to quantify the impact of these on income tax balances. As a result, I was unable to satisfy myself whether the income tax balances were fairly stated as at 31 December 2017.

## DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs above, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of PNG Power Limited for the year ended 31 December 2017.

## EMPHASIS OF MATTER

I draw attention to *Note 1A* of the financial statements, which indicates that the Company's current liabilities exceeded its current assets by K137.6 million as at 31 December 2017. This condition indicates existence of a material uncertainty on the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business."

### 75.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and the audit of the accounts and records of the Company for the years ended 31 December 2016 and 2017 were issued on 1 August 2018 and 1 May 2019. The reports contained similar observations, hence, only the 2017 report is reproduced:

#### Purchase and Payable Processes and Systems

- a) Significant goods received were not invoiced, indicating that the three-way matching process is not operating effectively. As at 31 December 2017, the goods received not invoiced account had a balance of K2.3 million, which indicates that goods have not been matched upon receipt to clear the goods received not invoiced account and create a creditor against which the account can be paid;
- b) There was material variance noted in the reconciliations prepared by the payables team for the top-50 suppliers of the Company. As at the date of this report, there remains K8.56 million unreconciled balance of the top-50 companies. As this difference only represent the top 50 suppliers, there is a possibility that the unreconciled balance could be material to the financial statements taken as a whole;
- c) As at 31 December 2017, the Company recorded GST liability, net of K27.12 million (before adjustments). However, based on the statement of account obtained from IRC, the balance owed as at period end amounted to only K19.05 million, leaving an unreconciled difference of K8.07 million; and
- d) Sufficient audit evidence was not available to support the incurrence and recording of the expense transactions selected for testing during the audit.

## Revenue Process and Systems

I was unable to validate the control environment surrounding revenue recognition due to an incomplete 'audit trail'. The following control deficiencies were noted:

- a) **Accuracy of aging report:** From my sample testing of the aging report, I noted variances of the aging of the electricity debtors which were not reconciled. I was unable to ascertain the accuracy of the aging report generated from the Gentrack system.
- b) **Measurement of revenue:** For Easipay sales, revenue is recognised at the time top-up credits are purchased by customers. Per policy, the easipay sales should be recognised on a usage basis. Management should review the systems in place and determine how the usage of easipay sales could be captured in the system and adjust revenue accordingly.

## Information Technology Control Environment

I noted significant weaknesses in the Information Technology (IT) control environment, specifically with respect to systems access, systems change management, reporting capability to support account reconciliations and the broader control environment and ongoing system monitoring. I understand from IT management that remedial plans to address the issues are in progress. These are detailed below:

- i. a formal policy on user access management which details the process of user access creation, modification and termination has not been documented. Thus, a formal and uniform process for user access management has not been implemented. There was no process to obtain relevant approvals for access management in a formal manner;
- ii. a process to review the access of business as well as privileged users on a periodic basis has not been implemented;
- iii. the password settings for the Oracle, Chris21, Gentrack and Suprima applications were set to minimum and below recommended settings. Unauthorised access to accounts is made more possible where password settings are not activated;
- iv. communication of terminated employees from Human Resources (HR) to the IT team is not made in a timely manner. Therefore, access of terminated employee is not revoked in a timely manner. Where user accounts belonging to terminated employees are not removed or disabled in a timely manner, the risk of unauthorised use of these accounts may increase;

- v. change Management Policy does not detail the process to ensure that changes are appropriately authorised, tested and approved before being implemented into the production environment; and
- vi. there is no periodic review performed of user access to the key financial systems to determine that their access rights are appropriately authorised and established. Unauthorised or inappropriate access may be granted to a user which increases the risk that key financial data/programs are intentionally or unintentionally modified.

I brought to the attention of the management the above deficiencies including my recommendations.

### **Quality of General Ledger Reconciliations**

The reconciliations are prepared on a regular basis and that there was an overriding framework to manage the reconciliation process. However, I noted several weaknesses that can be improved by the Company. The identified weaknesses include the level of skepticism applied for account reconciliations (preparer and reviewer), limited knowledge and understanding of operational processes by reconciliation preparer's/reviewer's, limited support provided for reconciling items and aging of reconciling items. I also identified a number of reconciliations and schedules which were signed off by the preparer and reviewer but contained errors, which were not identified during the review process. These findings indicate the review process is not effective and increases the risk of errors and irregularities not being detected and resolved. This increases risk of material misstatement.

The impact of the above issues includes:

- reconciliations contained material errors could not be identified;
- increased use of 'general provisions' by management to counter the risk of potential reconciliation errors;
- reconciliations are not supported by adequate documentation and calculations;  
and
- long outstanding reconciling items that have not been actioned.

### **Asset and Project Management Process**

Management have commenced implementing improvements in this area, however there remains significant opportunity to improve processes associated with asset impairment monitoring, fair value assessments, useful life assessments, and capital WIP management.

The significant matters that have been highlighted include:

**a) *Capital project management***

Capital project management is a critical process for PNG Power. I noted a number of deficiencies as summarised below:

**i. *Delay in Finalisation of Project Completion Forms***

PPL is currently behind in their submission of completion notice forms for completed projects. This increases the risk that projects are not closed out and subsequently capitalized and depreciated from the date the assets are held ready for use.

**ii. *Lack of Physical Inspection of Projects***

The Company performed physical inspection of significant project assets. However, I suggest that a full count be performed to account for the recorded assets in the books. This prevents the risks of misuse of project related assets and/or projects that the completion status of projects is not physically verified by PPL staff independent of the project team.

**iii. *No Internal Analysis of 5% to 10% Overhead for Projects***

I noted that a 5% to 10% general allowance is allocated into the cost of the asset to cover for overheads. The 5% to 10% is allocated as a standard to all project work orders and that there is no specific internal analysis for the allocation of this overhead for each projects.

**b) *Count fixed assets periodically***

The Company does not have a policy for carrying out a periodic physical verification of assets. In the absence of physical verification, management may not be able to identify obsolete, damaged or missing assets on a timely basis or at all. This may result in inaccurate financial reporting.

**Bank Reconciliation**

I noted the following matters over the bank reconciliation process:

- a) bank reconciliations are manually prepared. Oracle has a built-in system where bank reconciliations are automatically prepared if the accounting system is linked to online banking; and
- b) bank reconciling items are not addressed on a timely basis.

## Receivables

I noted the following matters over the receivable balances:

- a) the Company provides full allowance for receivables which are past due for more than 180 days and for those balances which are determined to be uncollectible. I was unable to obtain sufficient appropriate evidence to evaluate the reasonableness of the policy due to issues noted in the aging of receivables whereby the Company cannot generate a report showing the collection status subsequent to year end for receivables outstanding as at 31 December 2017; and
- b) the propriety of the adjustment in the prepayment account amounted to K27.89 million could not be ascertained due to lack of supporting documents.

### 75.3 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 2018 was in progress.

## **76. POST (PNG) LIMITED**

### **76.1 INTRODUCTION**

#### **76.1.1 Legislation**

Post (PNG) Limited was incorporated on 24 December 1996 under the *Companies Act*. This Company was formed following the *NEC Decision No. 18/96* of 17 April 1996 to corporatise the Post and Telecommunications Corporation (PTC) and separate it into three entities, namely: Telikom PNG, Post PNG and PNG Telecommunication Authority (PANGTEL) now known as National Information and Communications Technology Authority (NICTA) as established by *Section 8* of the *National Information and Communications Act*.

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the PTC relating to Postal Services were, as per the allocation statement approved by the Minister for Communications, transferred on 31 December 1996 at net book value to Post (PNG) Limited. Post (PNG) Limited is a 100% state-owned Company and it commenced trading on 1 January 1997.

#### **76.1.2 Objectives of the Company**

The primary objectives of the Company are to:

- provide domestic and international postal services to meet the reasonable needs of the people, Government, non-governmental organisations and business enterprises of PNG;
- manufacture and market postage stamps, philatelic products and other products for use in connection with services provided by Post PNG;
- provide money transfer services within the Independent State of PNG and between PNG and other places;
- engage in research relating to postal products and activities;
- provide packet and parcel carrying services;
- provide courier and freight services;
- provide mail house, documents exchange and contract mail management services;
- carry on any business or activity that is related, incidental, ancillary or complementary to the provision of domestic and international postal services;
- provide fund transfer services, act as agent on behalf of other entities, bodies and organisations in relation to banking arrangements and in the collection of premium rates, licence fees, other like services and operate a savings bank; and
- perform functions relating to the provision of postal services in a manner consistent with PNG's obligations under any convention.



## **76.2 AUDIT OBSERVATIONS**

### **76.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2017 was issued on 19 October 2018. The report did not contain any qualification.

## **76.3 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 2018 had been completed and the results were being evaluated.

## **77. TELIKOM (PNG) LIMITED**

### **77.1 INTRODUCTION**

#### **77.1.1 Legislation**

Telikom (PNG) Limited was incorporated under the *Companies Act*. This Company was formed following the *NEC Decision No. 18/96* of 17 April 1996 to corporatise the Post and Telecommunications Corporation (PTC) and to separate it into three entities namely: Telikom (PNG) Limited, Post PNG Limited and National Information and Communication Technology Authority (NICTA) formerly known as (PANGTEL).

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the PTC relating to Telecommunication Services were transferred on 31 December 1996 at the net book value to Telikom (PNG) Limited as per the allocation statement approved by the Minister for Communications. Telikom (PNG) Limited is a 100% state owned Company and it commenced trading on 1 January 1997.

#### **77.1.2 Objectives of the Company**

The primary objectives of the Company are to:

- be the successor Company to the Telikom Divisions of PTC within the meaning of and for the purposes of the *Telikom (PNG) Limited Act*;
- supply telecommunication services within PNG and between PNG and other places;
- carry on any business or activity relating to telecommunications either inside or outside of PNG;
- publish telecommunications directories, and to supply directory information service;
- supply, install and maintain customer equipment and customer lines;
- develop, manufacture, market and supply facilities and software;
- supply value added services;
- utilise its network, installations and facilities for purposes other than telecommunications, to the extent that such network installations and facilities are not fully utilised in the supply of telecommunications;
- carry on any business incidental to telecommunication;
- unless otherwise advised to the contrary by the Minister acting in accordance with a directive of the NEC to:

- act as an adviser to the Government of PNG on matters relating to telecommunication activities in PNG;
  - represent PNG as a member of, and actively participate, in international bodies concerned with the administration of telecommunication services;
  - enter into international agreement relating to telecommunication activities; and
  - perform functions relating to the provision of telecommunication services in a way consistent with PNG's obligations under any convention; and
- exercise such powers to negotiate, prepare, execute and perform any contracts or management arrangements of the State as may be delegated to it or conferred on it.

### **77.1.3 Subsidiaries of the Company**

The subsidiaries of Telikom (PNG) Limited are *DATEC (PNG) Limited*, *Kalang Advertising Limited*, *Media Niugini Limited (EMTV)* and *PNG Directories Limited*. Comments in relation to these subsidiaries are contained in paragraphs 77A, 77B, 77C and 77D of this Report respectively.

## **77.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2015, 2016 and 2017 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **77A. DATEC (PNG) LIMITED (Subsidiary of Telikom (PNG) Limited)**

### **77A.1 INTRODUCTION**

#### **77A.1.1 Legislation**

Datec (PNG) Limited was incorporated under the *Companies Act*. The Company was fully acquired by Telikom (PNG) Limited from Steamships Trading Company Limited on 1 August 2014. The Company is a wholly owned subsidiary of Telikom (PNG) Limited.

#### **77A.1.2 Function of the Company**

Datec (PNG) Limited's principal activity is in the provision and support of technology applied solutions including business critical ICT consulting, solutions and services, IT outsourcing, business process outsourcing, internet services, electronics and computer retail, training and wide-ranging technical support.

### **77A.2 AUDIT OBSERVATIONS**

#### **77A.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2016 was issued on 10 September 2018. The report did not contain any qualification.

### **77A.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 2017 was completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2018 was in progress.

## **77B. KALANG ADVERTISING LIMITED (Subsidiary of Telikom (PNG) Limited)**

### **77B.1 INTRODUCTION**

#### **77B.1.1 Legislation**

Kalang Advertising Limited was incorporated under the *Companies Act*. The Company is wholly owned by Telikom (PNG) Limited.

The ownership of the Company changed following the *National Court Order of 9 September 1997* which allowed Telikom (PNG) Limited to convert the debt due from Kalang Advertising Limited into shareholding. Subsequently, Kalang issued 535,424 ordinary shares to Telikom (PNG) Limited on 31 October 1997.

#### **77B.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.

### **77B.2 AUDIT OBSERVATIONS**

#### **77B.2.1 Comments on Financial Statements**

My reports in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2014 and 2015 were issued on 10 September 2018. The reports did not contain any qualification.

#### **77B.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was 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 2017 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **77C. MEDIA NIUGINI LIMITED (EMTV) (Subsidiary of Telikom (PNG) Limited)**

### **77C.1 INTRODUCTION**

#### **77C.1.1 Legislation**

Media Niugini Limited (EMTV) was incorporated under the *Companies Act*. The Company was acquired by Telikom (PNG) Limited from Fiji Television Limited (FijiTV) on 4 February 2016.

The Company was founded in 1985 by two local businessmen in a joint venture with the Nine Network of Australia. In July 1987 the Company commenced broadcasting through its national television service. In 1990 Nine Network acquired 100% ownership of Media Niugini Limited and later sold its interest in the Company to Fiji Television Limited (FijiTV) in December 2004. The Company then operated as a subsidiary of FijiTV.

The Company is now a wholly owned subsidiary of Telikom (PNG) Limited.

#### **77C.1.2 Functions of the Company**

Media Niugini Limited, trading as EMTV, provides television broadcasting services in Papua New Guinea.

The Company offers:

- current affairs, national news, weather reports, and special documentaries; and
- shows in the areas of sports, lifestyle, entertainment, drama, children, religion, music and others.

### **77C.2 AUDIT OBSERVATIONS**

#### **77C.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the period ended 1 July 2015 to 31 December 2016 was issued on 26 March 2019. The report did not contain any qualification, however, an emphasis of matter.

## EMPHASIS OF MATTER

### Ability to continue on a Going Concern Basis

*Note 2* to the financial statements indicated that the Company incurred a net loss of K4,618,739 for the period ended 1 July to 31 December 2016 and, as of that date, the Company's current liabilities exceeded its net assets by K12,201,504. The events or conditions, along with other matters as set out in *Note 2* indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore the entity maybe unable to realize its assets and discharge its liabilities in the normal course of business and at the amount stated in the financial statements.

### 77C.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 2017 was completed and the results were being evaluated.

The Company had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.

## **77D. PNG DIRECTORIES LIMITED (Formerly E. H. O'Brien Limited) (Subsidiary of Telikom (PNG) Limited)**

### **77D.1 INTRODUCTION**

#### **77D.1.1 Legislation**

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.

### **77D.2 AUDIT OBSERVATIONS**

#### **77D.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2016 was issued on 10 September 2018. The report did not contain any qualification.

### **77D.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2017 had been completed and the results were being evaluated.

The Company had not submitted its financial statements for the year ended 31 December 2018 for my inspection and audit.



**SECTION C**

**NATIONAL GOVERNMENT  
SHAREHOLDINGS IN  
OTHER COMPANIES**



## 78. FOREWORD

This Section of my Report deals with Companies in which the Government owns 50% or less of the issued Share Capital of a Company.

The auditing and reporting requirements of these Companies are stipulated under the *Companies Act*, and these have been elaborated in Paragraph 62 of this Report.

As the Government of PNG does not hold majority interest in these Companies, the accounts of these Companies are audited by Private Auditors.

However, because public monies are invested in these Companies, my responsibilities require the inclusion of the summaries of their accounts and the comments of the Private Auditors' Reports in this Section of my Report. Details of these companies are contained in paragraphs 79 to 80.



## **79. BOUGAINVILLE COPPER LIMITED**

### **79.1 INTRODUCTION**

#### **79.1.1 Legislation**

Bougainville Copper Limited, formerly Bougainville Copper Pty Limited, was incorporated under the *Companies Act*.

From 1972 until 1989, the Company operated a large open pit mine and processing facility at Panguna on the island of Bougainville in the North Solomons Province of PNG. It produced concentrate containing copper, gold and silver which was sold primarily under long-term contracts to smelters in Asia and Europe. On 15 May 1989 production was brought to a halt by militant activity and has not recommenced since.

As at 31 December 2018 the issued capital of the Company were 401,062,500 fully paid shares, each carrying one voting right. Of these, the Government of PNG held 76,430,809 (19.06%) shares of the total shares. A further 69,744,640 (17.39%) shares were held through Eda Minerals Limited totalling 36.4%.

The Autonomous Bougainville Government (ABG) holds 146,175,449 shares (36.4%) through Bougainville Minerals Limited. The remaining 108,711,602 shares (27.11%) are owned by individual Papua New Guinean and Bougainvillean shareholders.

#### **79.1.2 Objectives of the Company**

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.

### **79.2 REPORT OF THE COMPANY'S AUDITORS**

A Private Firm of Auditors conducted the audit of the Company's financial statements including the accounts and records for the year ended 31 December 2018 and the audit report was issued on 29 March 2019. This report contained a Qualified Opinion.

#### **“BASIS FOR QUALIFIED OPINION**

The Company's subsidiary holds an investment in an unlisted investment fund with a carrying value of K1.1 million at 31 December 2018. Management have not been provided with audited financial statements of the investee at 31 December 2018 and there is currently no active market for the sale of units in the investment fund. As a result, we have been unable to satisfy ourselves as to the valuation of K1.1 million of the investments recognised in the consolidated balance sheet at 31 December 2018.

## **QUALIFIED OPINION**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements:

- a) comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- b) give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and their financial performance and cash flows for the year then ended.”

## **80. GOGOL REFORESTATION COMPANY LIMITED**

### **80.1 INTRODUCTION**

#### **80.1.1 Legislation**

Gogol Reforestation Company Limited was incorporated under the *Companies Act*. The objective of the Company is to be involved in reforestation.

As at 31 December 2009, the issued and fully paid up capital of the Company comprised 102,001 'A' class ordinary shares of K1.00 each and 98,001 'B' class ordinary shares of K1.00 each. Of these, the Government of PNG held 98,001 'B' class ordinary shares of K1.00 each, representing 49% of the issued Capital at a cost of K98,001.

### **80.2 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the audited financial statements and the audit reports of the Company for the years ended 31 December 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 had not been submitted for my verification.

Further, I was informed by management that the Company was no longer in operation since 2011 due to the winding down of the Company.

In 2014, I communicated with Independent Public Business Corporation (IPBC) requesting for the winding down documents and IPBC responded that they had not received any winding down application nor deregistration documents with regard to Gogol Reforestation Co. Limited. My efforts to clarify the status with Kumul Consolidated Holdings were unsuccessful. A Company search with the Investment Promotion Authority on 24 July 2019 revealed that the Company was not deregistered.





## **SECTION D**

### **PROBLEM AUDITS (AUDITS IN ARREARS)**



## **81. FOREWORD**

This Section of my Report deals with problem audits, especially audits in arrears. Problem audits denote audit of entities in respect of which I have not been able to carry out audits for circumstances detailed in the respective paragraphs.

### **81.1 EXCLUSION OF ENTITIES FROM STATUTORY AUDIT**

Due to non-submission of financial statements by the following entities due to amendment to the enabling Act, I was not able to perform the audit of the following entities.

- *Kumul Minerals Holding Limited (formerly Petromin Limited);*
- *National Development Bank Limited;*
- *PNG Air Services Limited;*
- *Ok Tedi Mining Limited; and*
- *PNG Sustainable Development Program Limited.*



## **82. AUDITS IN ARREARS**

### **82.1 GENERAL**

Audits in arrears are those in respect of which financial statements have not been submitted on time for audit to be undertaken, thus placing my Office in a position where audits are not able to be conducted on a current year basis consistent with the requirements of the *Companies Act* and the *PFMA*. Two serious consequences develop from this. Firstly, it results in a build-up of audits in arrears, and these are all audits other than the current year (2018) audits. The other serious consequence is that audit reports 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.

### **82.2 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.

### 82.3 LEGISLATIVE REQUIREMENTS

To ensure the timely preparation of financial statements, *Section 63(3)(a)* of the *Public Finance (Management) (Amendment) Act 2016* makes it mandatory for statutory bodies to prepare and furnish audited financial statements to the Finance Departmental Head, before end of the fourth calendar month from close of a fiscal year. The fact that audit of **36 entities** as depicted in **Schedule B(iv)** had been in arrears due to non-submission of financial statements is a direct contravention of the requirements of *Section 63(3)(a)* 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 statutory bodies to task for non-compliance with mandatory statutory requirements.

By virtue of *Section 63(4)* of the *Public Finance (Management) (Amendment) Act 2016*, the Finance Minister is required to table the reports of the respective statutory bodies in Parliament after they are received. The following arrears situation implies that a lot of statutory 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.

### 82.4 CURRENT YEAR AUDITS (2018 AUDITS)

Entities totalling **125** subject to audit by the Auditor-General comprise **80** Public Bodies and their subsidiaries, **43** National Government owned companies and **2** companies in which the National Government has shareholdings (referred to as Section 'C' Companies).

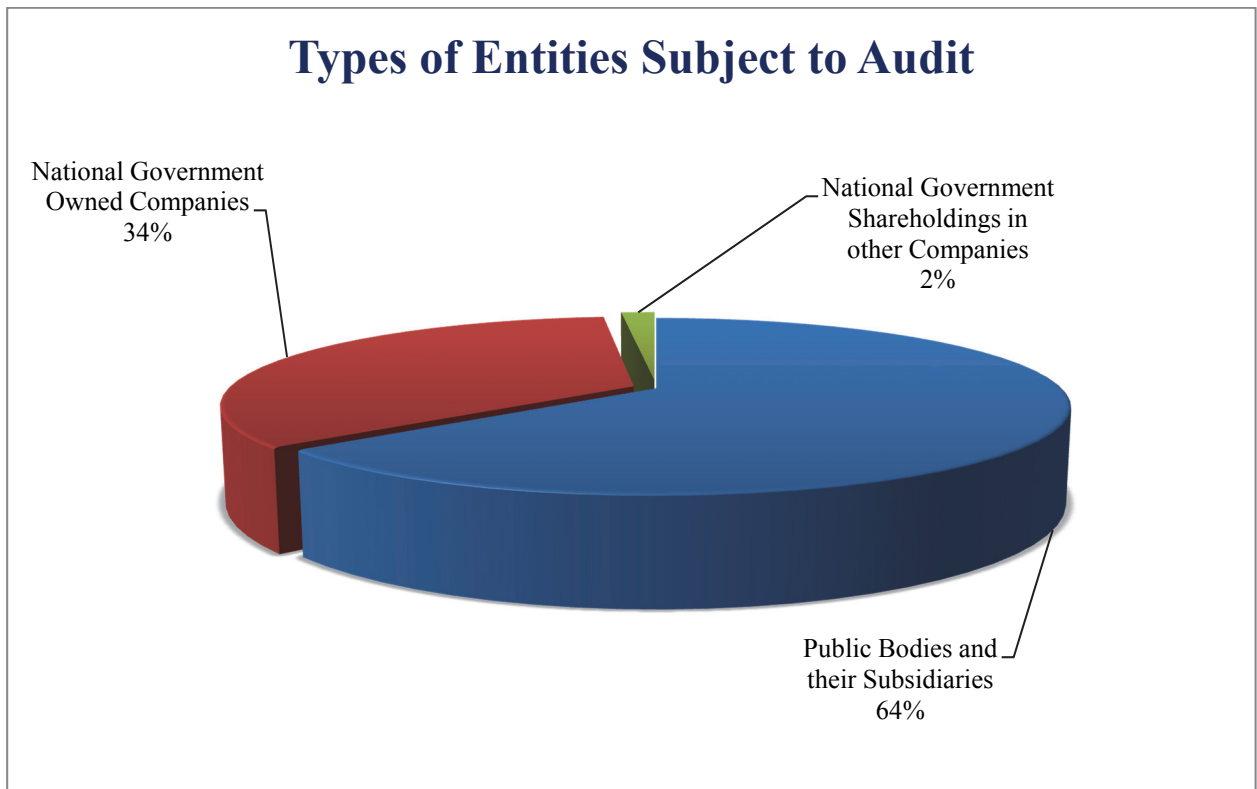
## TYPES OF ENTITIES SUBJECT TO AUDIT

**Table 1**

Section	Types of Audit	Number of Entities	
		2018/2019	2017/2018
(A)	Public Bodies and their Subsidiaries	80	78
(B)	National Government Owned Companies	43	37
(C)	National Government Shareholdings in other Companies	2	4
		<b>125</b>	<b>119</b>

**Table 1.** Shows the total of Types of Entities subject to Audit.

**Chart 1**



**Chart 1.** Shows the percentages of Types of Entities subject to Audit during 2018/2019 Audit Cycle.

## 82.5 STATUS OF CURRENT YEAR AUDITS

Each of the **123** entities, except Section ‘C’ Companies are subject to audit and required under *Section 63(3)(c)* of the *Public Finance (Management) (Amendment) Act 2016* to submit annual financial statements for audit. Information available in my Office shows that only **51** entities have submitted their financial statements for 2018 (**Schedule A**) for audit up to the time of preparing this Report. A total of **72** entities have not submitted their 2018 financial statements (**Schedule A**) for audit in 2019. It could therefore be logically concluded that, about 56% of the public bodies might not have submitted their annual reports and financial statements for 2018 together with my reports on them, to the respective Ministers for tabling in the National Parliament on or before 30 April 2019.

**Table 2** and **Chart 2** shown below, and **Schedule A** attached show the status of the current year audits.



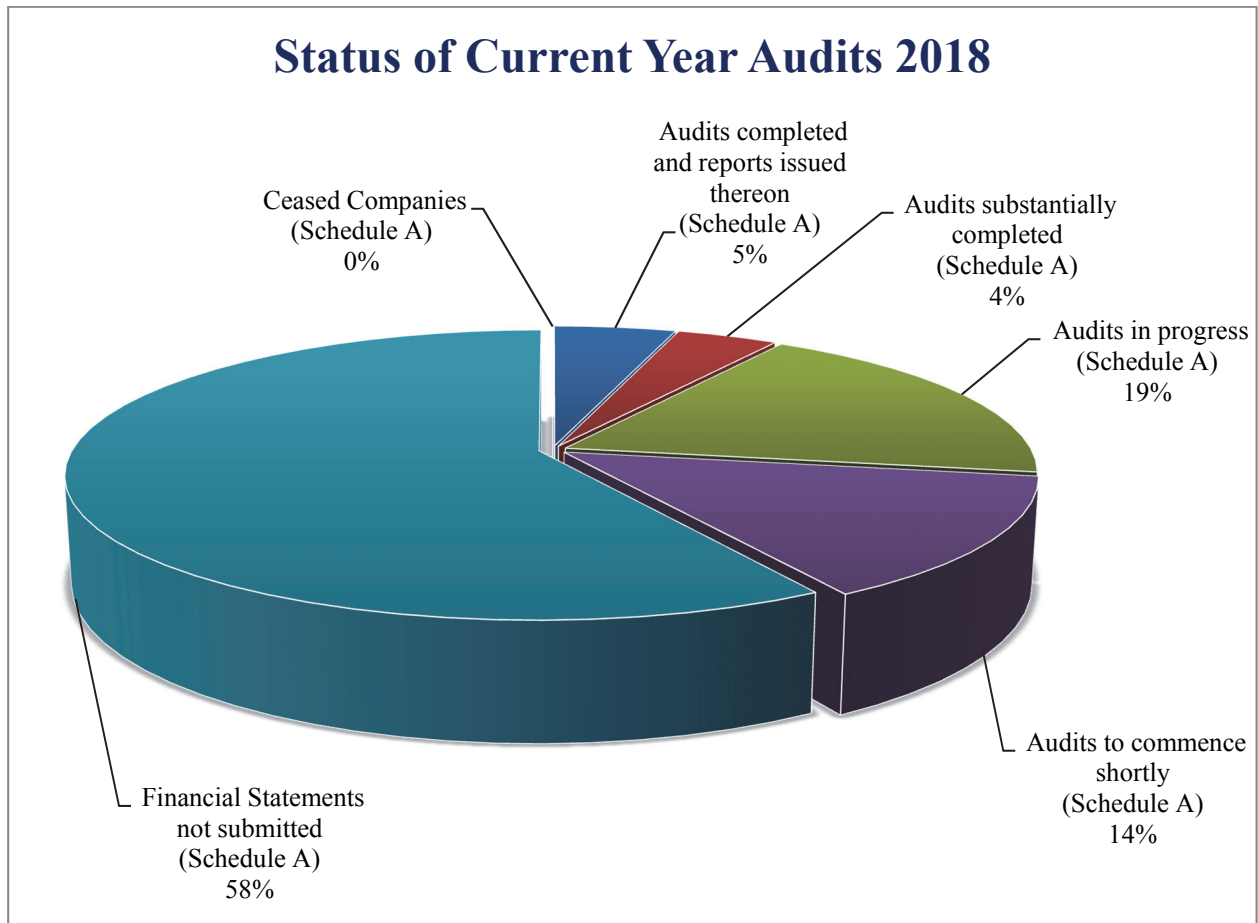
## STATUS OF CURRENT YEAR AUDITS 2018

**Table 2**

No.	Status of Current Year Audits	Number of Entities	
		2018/2019	2017/2018
1	Audits completed and reports issued thereon (Schedule A)	6	0
2	Audits substantially completed (Schedule A)	5	14
3	Audits in progress (Schedule A)	23	27
4	Audits to commence shortly (Schedule A)	17	11
5	Financial Statements not submitted (Schedule A)	72	63
6	Ceased Entities (Schedule D)	0	0
		<b>123</b>	<b>115</b>

**Table 2.** Shows the total of Status of Current Year (2018 Audits) (Schedule A).

**Chart 2**



**Chart 2.** Shows the percentages of Audit Status for the Current Year (2018) during 2018/2019 Audit Cycle. (Schedule A)

## 82.6 AUDITS IN ARREARS (2017 AND PRIOR YEARS)

Records available in my Office show that a total of **106** entities (197 audits) were in the Audit in Arrears category due to non-submission of financial statements on time. **Table 3** and **Chart 3** shown below, and **Schedule B** attached provide more details of these.

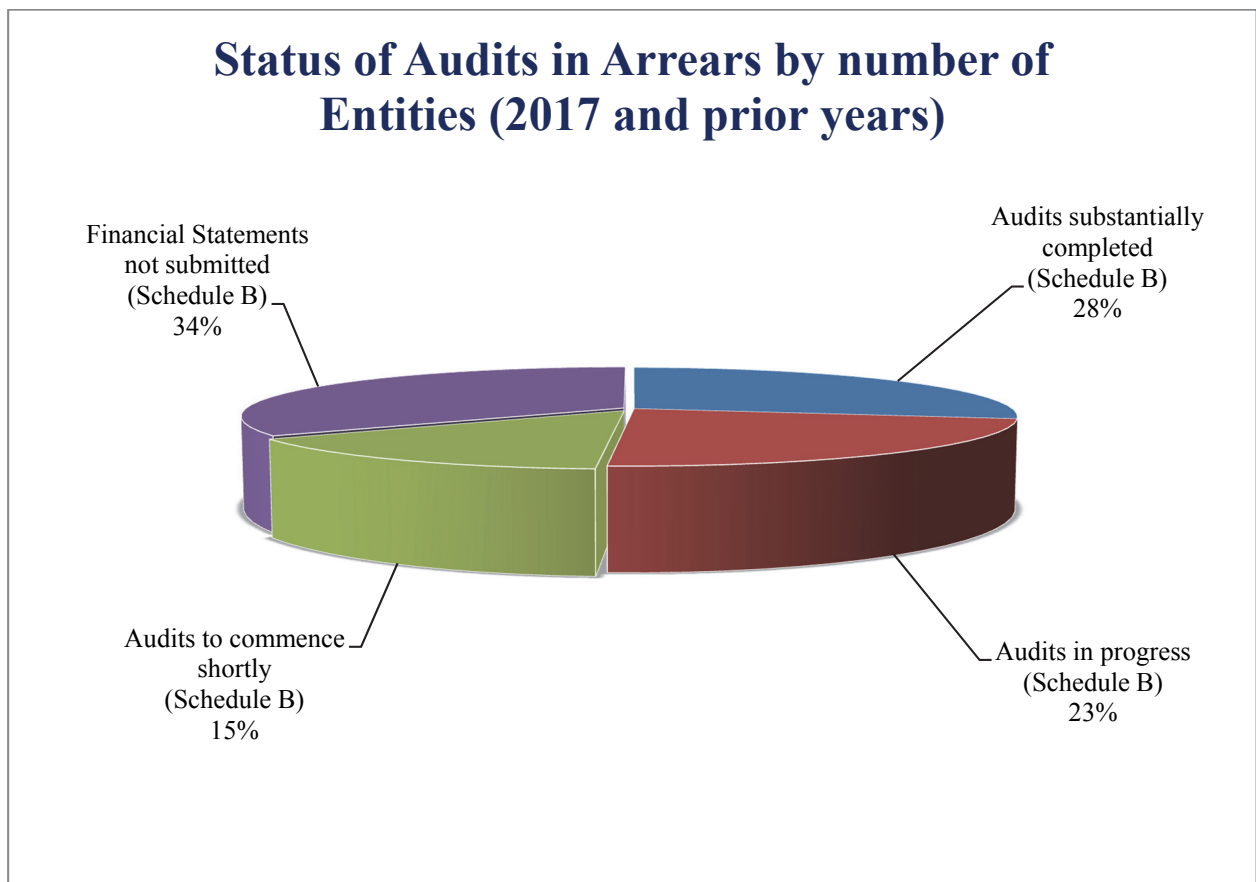
## STATUS OF AUDITS IN ARREARS BY NUMBER OF ENTITIES (2017 AND PRIOR YEARS)

**Table 3A**

No.	Status of Audits in Arrears by No. of Entities ( 2017 and Prior Years)	Number of Entities	
		2018/2019	2017/2018
1	Audits substantially completed (Schedule B)	30	41
2	Audits in progress (Schedule B)	24	25
3	Audits to commence shortly (Schedule B)	16	9
4	Financial Statements not submitted (Schedule B)	36	35
		<b>106</b>	<b>110</b>

**Table 3A.** Shows the Status of Audits in Arrears by number of Entities for 2017 and Prior Years during 2018/2019 Audit Cycle. (Schedule B)

**Chart 3A**



**Chart 3A.** Shows the percentages of Audit Status for Audits in Arrears by number of Entities for 2017 and Prior Years during 2018/2019 Audit Cycle. (Schedule B).

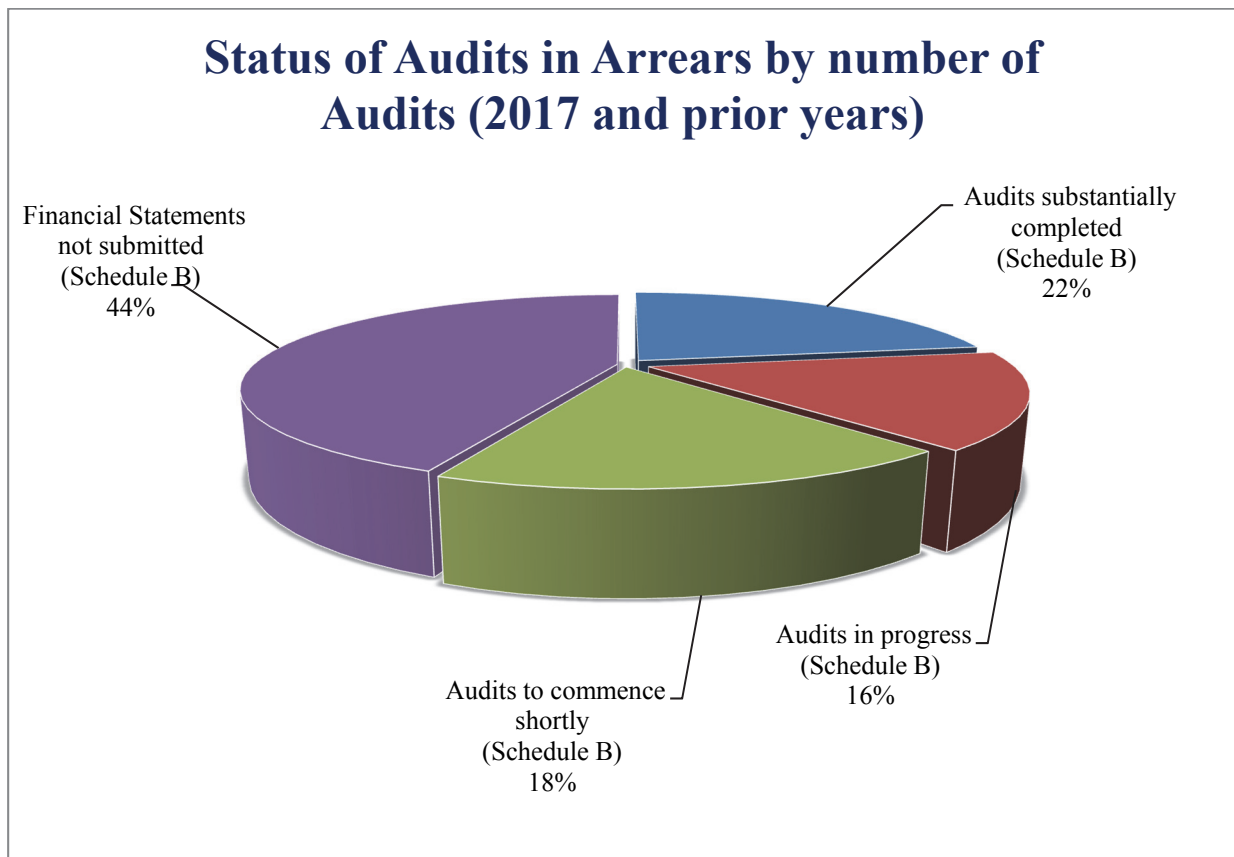
## STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2017 AND PRIOR YEARS)

**Table 3B**

No.	Status of Audits in Arrears by No. Of Audits (2017 & prior years)	Number of Audits	
		2018/2019	2017/2018
1	Audits substantially completed (Schedule B)	44	65
2	Audits in progress (Schedule B)	32	31
3	Audits to commence shortly (Schedule B)	35	13
4	Financial Statements not submitted (Schedule B)	86	87
		<b>197</b>	<b>196</b>

**Table 3B.** Shows the Status of Audits in Arrears by number of Audits for 2017 and Prior Years during 2018/2019 Audit Cycle. (Schedule B).

**Chart 3B**



**Chart 3B.** Shows the percentages of Audit Status for Audits in Arrears by number of Audits for 2017 and Prior Years during 2018/2019 Audit Cycle. (Schedule B).

## **82.7 LONG OUTSTANDING FINANCIAL STATEMENTS**

During this Audit Cycle (2018/2019), **36** audit entities were in the arrears category, increased by two compared to prior year (2017). Of these **36** entities, **86** financial statements for periods ranging from one year to eight years have still not been submitted. In other words, they still have financial statements outstanding for the years from 2010 to 2017. Details of these are shown below in **Table 4, Chart 4** and also in **Schedule C** attached.

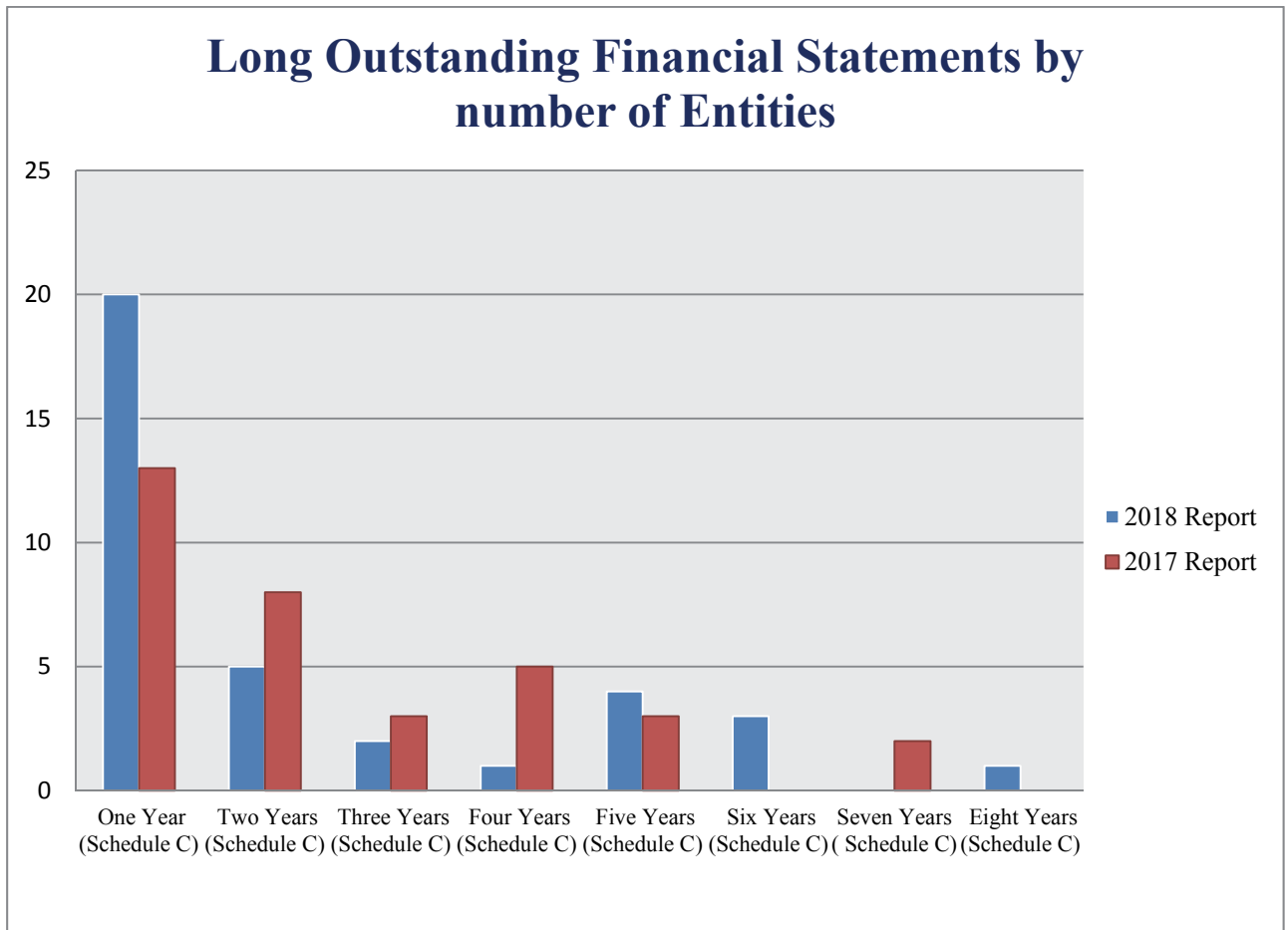
**LONG OUTSTANDING FINANCIAL STATEMENTS  
BY NUMBER OF ENTITIES  
(2017 AND PRIOR YEARS)**

**Table 4A**

No.	Years Outstanding by Entities	Number of Entities	
		2018 Report	2017 Report
1	One Year (Schedule C)	20	13
2	Two Years (Schedule C)	5	8
3	Three Years (Schedule C)	2	3
4	Four Years (Schedule C)	1	5
5	Five Years (Schedule C)	4	3
6	Six Years (Schedule C)	3	0
7	Seven Years (Schedule C)	0	2
8	Eight Years (Schedule C)	1	0
		<b>36</b>	<b>34</b>

**Table 4A.** Shows the total of Long Outstanding Financial Statements by number of Entities during 2018/2019 Audit Cycle. (Schedule C).

**Chart 4A**



**Chart 4A.** Shows the percentages of Long Outstanding Financial Statements by number of Entities during 2018/2019 Audit Cycle (Schedule C).

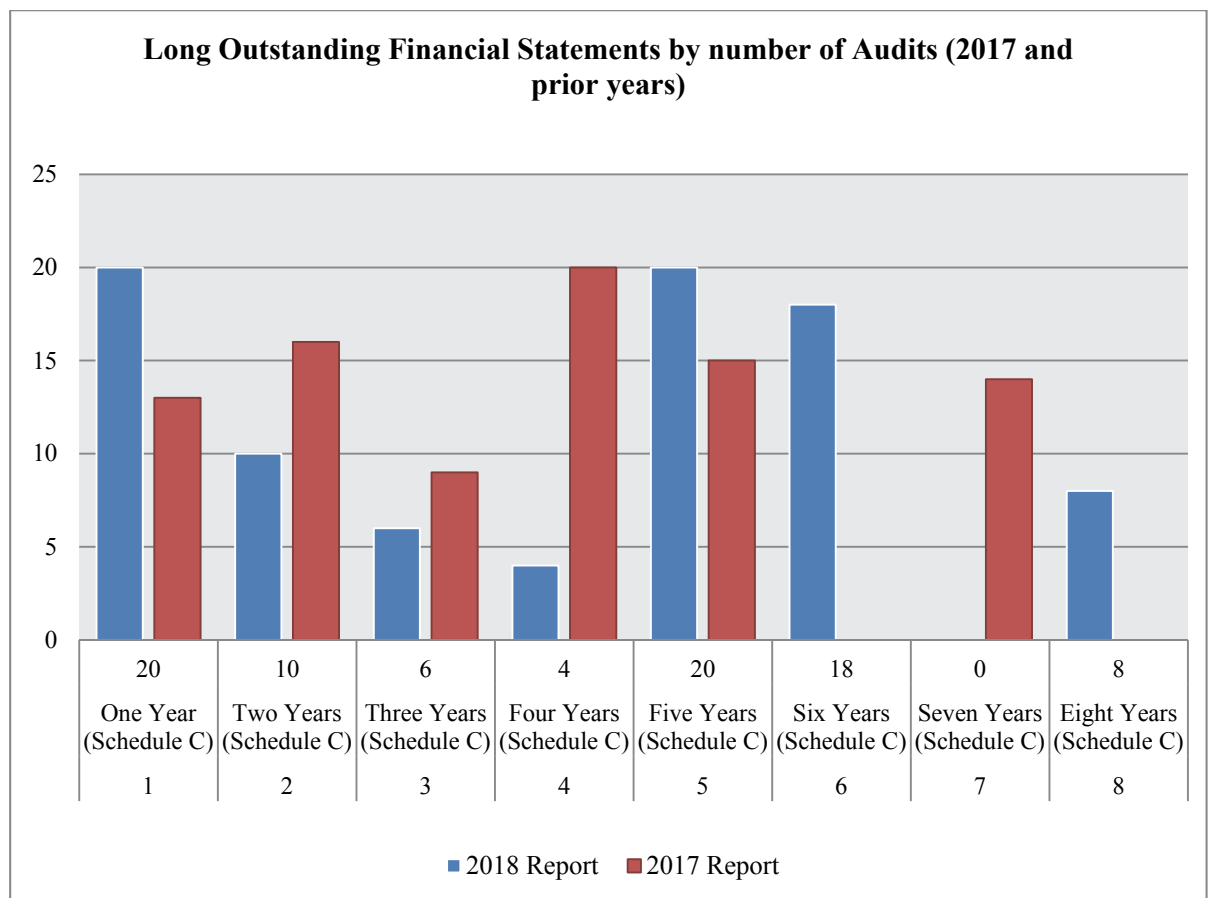
**LONG OUTSTANDING FINANCIAL STATEMENTS  
BY NUMBER OF AUDITS  
(2017 AND PRIOR YEARS)**

**Table 4B**

No.	Years Outstanding by Audits	Number of Audits	
		2018 Report	2017 Report
1	One Year (Schedule C)	20	13
2	Two Years (Schedule C)	10	16
3	Three Years (Schedule C)	6	9
4	Four Years (Schedule C)	4	20
5	Five Years (Schedule C)	20	15
6	Six Years (Schedule C)	18	0
7	Seven Years (Schedule C)	0	14
8	Eight Years (Schedule C)	8	0
		<b>86</b>	<b>87</b>

**Table 4B.** Shows the total of Long Outstanding Financial Statements by number of Audits during 2018/2019 Audit Cycle. (Schedule C).

**Chart 4B**



**Chart 4B.** Shows the percentages of Long Outstanding Financial Statements by number of Audits during 2018/2019 Audit Cycle. (Schedule C).

## **82.8 STATUS OF AUDITS AS AT 30 JUNE 2019**

As illustrated in **Executive Summary Table A**, during July 2018 and June 2019 Audit Cycle, a **total of 227 audits** were undertaken by the Audit Office. Out of **227 audits** carried out, **123 audit** reports were issued. **Table 5 and Chart 5** shown below provide the details of the Status of Audits during the period July 2018 to June 2019.



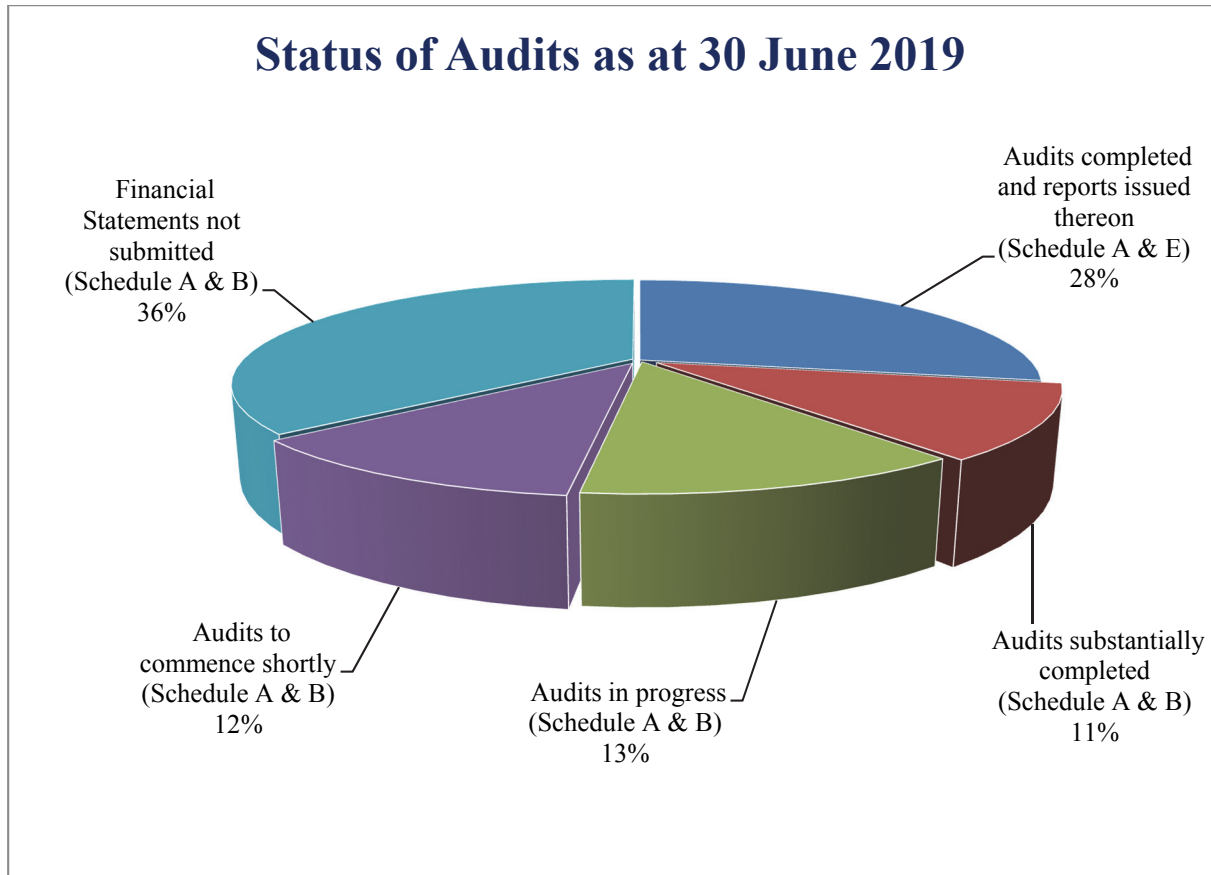
## STATUS OF AUDITS AS AT 30 JUNE 2019

**Table 5**

No.	Status of Audits	Number of Audits	
		2017/2018	2017/2018
1	Audits completed and reports issued thereon (Schedules A & E)	123	26
2	Audits substantially completed (Schedules A & B)	49	79
3	Audits in progress (Schedules A & B)	55	58
4	Audits to commence shortly (Schedules A & B)	52	24
5	Financial Statements not submitted (Schedules A & B)	158	150
		<b>437</b>	<b>337</b>

**Table 5.** Shows the Status of Audits as at 30 June 2019 for the 2018/2019 Audit Cycle. (Schedules A&E and A&B).

**Chart 5**



**Chart 5.** Shows the percentages of Audit Status as at 30 June 2019 for the 2018/2019 Audit Cycle (Schedules A&E and A&B).



## **ACKNOWLEDGEMENTS**

My audit staff worked conscientiously and successfully completed audits entrusted to them. Their devotion to duty, their integrity and loyalty are highly appreciated.

I extend my appreciation and gratitude to the Government Printing Office staff, for their efforts in completing the printing of this Report within the limited time frame available. I also acknowledge the co-operation and the assistance of all Heads of Public Bodies and National Government Owned Companies, and Registered Company Auditors and their staff who assisted as my Authorised Auditors.

I would also like to thank the Chairman and the members of the Permanent Parliamentary Committee on Public Accounts of PNG and the Secretary for the continuous interest shown in my work.

**SIGNED AT WAIGANI ON 22<sup>ND</sup> OCTOBER  
TWO THOUSAND AND NINETEEN**

A handwritten signature in blue ink, appearing to be 'GK' with a flourish above the 'K'.

**GORDON KEGA MBA, CPA**

*Acting Auditor-General of Papua New Guinea*



# **SCHEDULES**



## Schedule 'A'

### STATUS OF CURRENT YEAR (2018) AUDIT

#### (i) AUDITS COMPLETED AND REPORTS ISSUED THEREON

No.	Section	Para. No.	Entity	No. of Audits
1	A	3	Bank of Papua New Guinea	1
2	A	33	National Museum and Art Gallery	1
3	B	69	Motor Vehicles Insurance Limited	1
4	B	70	National Airports Corporation Limited	1
5	B	70A	Airport City Development Limited	1
6	B	70B	Airports Investments Limited	1
				<b>6</b>

#### (ii) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	No. of Audits
1	A	12	Independence Fellowship Trust	1
2	A	13	Independent Consumer and Competition Commission	1
3	A	16	Investment Promotion Authority	1
4	A	48	Papua New Guinea Maritime College	1
5	B	76	Post (PNG) Limited	1
				<b>5</b>

#### (iii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	No. of Audits
1	A	5	Civil Aviation Safety Authority of Papua New Guinea	1
2	A	18A	General Business Trust	1
3	A	18C	PNG Dams Limited	1
4	A	27	National Economic and Fiscal Commission	1
5	A	61	Water PNG	1
6	B	64	Bmobile Limited	1
7	B	64A	Bmobile (Solomon Islands) Limited	1
8	B	66	Kumul Petroleum Holdings Limited	1
9	B	66A	Eda Oil Limited	1
10	B	66B	Kumul Exploration (Asia) Limited	1
11	B	66H	Kumul Lending Co Pte Limited	1
12	B	66I	Kumul LNG Limited	1
13	B	66J	Kumul Petroleum (Development) Limited	1
14	B	66K	Kumul Petroleum (Investments) Limited	1
15	B	66L	Kumul Petroleum (Kroton) Limited	1
16	B	66M	Kumul Petroleum (Pipeline) Limited	1
17	B	66N	Kumul Petroleum (Tech & Advisory) Limited	1
18	B	66O	Kumul Petroleum Marketing Pte Limited	1
19	B	66P	Kumul Security Agent Limited	1
20	B	66Q	NPCP Oil Company Pty Limited	1
21	B	72	Papua New Guinea Ports Corporation Limited	1
22	B	75	PNG Power Limited	1
23	B	77A	DATEC (PNG) Limited	1
				<b>23</b>

**(iv) AUDITS TO COMMENCE SHORTLY**

No.	Section	Para. No.	Entity	No. of Audits
1	A	2	APEC Papua New Guinea 2018 Co-ordination Authority	1
2	A	7	Cocoa Board of Papua New Guinea	1
3	A	7A	Cocoa Pod Borer Project Fund	1
4	A	7B	Cocoa Stabilisation Fund	1
5	A	17	Kokonas Industri Koporesen	1
6	A	17A	Papua New Guinea Coconut Extension Fund	1
7	A	17B	Papua New Guinea Coconut Research Fund	1
8	A	18	Kumul Consolidated Holdings	1
9	A	18B	Kumul Technology Development Corporation Limited	1
10	A	22	National Agricultural Research Institute	1
11	A	23	National AIDS Council Secretariat	1
12	A	25	National Capital District Commission	1
13	A	31	National Information and Communications Technology Authority (NICTA)	1
14	A	35	National Roads Authority	1
15	A	41	Ombudsman Commission of Papua New Guinea	1
16	A	57	Tourism Promotion Authority	1
17	B	65	Kumul Agriculture Limited	1
				<b>17</b>

**(v) FINANCIAL STATEMENTS NOT SUBMITTED**

No.	Section	Para. No.	Entity	No. of Audits	Last Report Issued	Date of Report
1	A	4	Border Development Authority	1	2013	28/11/2016
2	A	4A	Papua New Guinea Maritime Transport Limited	1	2012	29/10/2015
3	A	6	Climate Change and Development Authority	1	2013	18/06/2019
4	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	1	2013	09/08/2016
5	A	9	Coffee Industry Corporation Limited	1	2015	16/05/2019
6	A	9A	Coffee Industry Fund	1	2015	11/06/2019
7	A	9B	Patana No.61 Limited	1	2015	11/06/2019
8	A	10	Conservation and Environment Protection Authority	1	2016	22/01/2019
9	A	11	Government Printing Office	1	2015	10/09/2018
10	A	14	Industrial Centres Development Corporation	1	2016	11/03/2019
11	A	15	Internal Revenue Commission	1	2015	22/03/2019
12	A	19	Legal Training Institute	1	2013	11/02/2016
13	A	20	Mineral Resources Authority	1	2014	15/06/2017
14	A	21	National Agriculture Quarantine and Inspection Authority	1	2016	18/09/2018
15	A	24	National Broadcasting Corporation	1	2014	11/04/2017
16	A	25A	National Capital District Botanical Enterprises Limited	1	2012	04/05/2015
17	A	25B	Port Moresby City Development Enterprises Limited	1	2012	04/05/2015
18	A	25C	Port Moresby Nature Park Limited	1	2015	26/03/2019
19	A	26	National Cultural Commission	1	2014	26/02/2019
20	A	28	National Fisheries Authority	1	2016	24/05/2019
21	A	29	National Gaming Control Board	1	2015	15/05/2019
22	A	29A	National Gaming Control Board Community Benefit Fund Trust	1	2015	15/05/2019
23	A	30	National Housing Corporation	1	2014	21/11/2017
24	A	30A	National Housing Estate Limited	1	New Inclusion	
25	A	32	National Maritime Safety Authority	1	2017	24/07/2018
26	A	34	National Research Institute	1	2016	28/06/2017



No.	Section	Para. No.	Entity	No. of Audits	Last Report Issued	Date of Report
27	A	36	National Training Council	1	2016	02/28/2018
28	A	37	National Volunteer Service	1	2016	29/05/2017
29	A	38	National Youth Development Authority	1	2016	09/08/2018
30	A	39	Office of the Insurance Commissioner	1	2017	13/05/2019
31	A	40	Oil Palm Industry Corporation	1	2011	30/09/2016
32	A	42	Papua New Guinea Accident Investigation Commission	1	2017	28/06/2019
33	A	43	Papua New Guinea Customs Service	1	2016	31/05/2019
34	A	44	Papua New Guinea Forest Authority	1	2012	19/02/2016
35	A	45	Papua New Guinea Immigration and Citizenship Service Authority	1	2017	13/05/2019
36	A	46	Papua New Guinea Institute of Medical Research	1	2017	25/02/2019
37	A	47	Papua New Guinea Institute of Public Administration	1	2013	08/05/2017
38	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	1	2016	10/12/2018
39	A	50	Papua New Guinea Sports Foundation	1	2015	30/04/2019
40	A	51	Papua New Guinea University of Technology	1	2016	07/12/2017
41	A	51A	National Analytical and Testing Services Limited	1	2011	04/04/2016
42	A	51B	Unitech Development and Consultancy Company Limited	1	2013	22/10/2015
43	A	52	Parliamentary Members' Retirement Benefits Fund	1	2016	28/02/2018
44	A	53	Public Curator of Papua New Guinea	1	2013	18/10/2017
45	A	54	Road Traffic Authority	1	2016	04/02/2019
46	A	55	Security Industries Authority	1	2015	31/07/2018
47	A	56	Small and Medium Enterprises Corporation	1	2015	14/09/2017
48	A	58	University of Goroka	1	2016	24/09/2018
49	A	58A	Unigor Consultancy Limited	1	2013	30/11/2015
50	A	59	University of Natural Resources and Environment	1	2014	29/10/2016
51	A	60	University of Papua New Guinea	1	2014	03/08/2018
52	A	60A	Unisave Limited	1	2011	25/08/2014
53	A	60B	Univentures Limited	1	2011	24/06/2014
54	B	63	Air Niugini Limited	1	2015	13/12/2017
55	B	63A	Air Niugini Cargo Limited	1	New Inclusion	
56	B	63B	Air Niugini Properties Limited	1	New Inclusion	
57	B	63C	Business Travel Centre Limited	1	New Inclusion	
58	B	63D	Link-PNG Limited	1	2015	13/12/2017
59	B	66C	Kumul Gas Foreland 239 B.V	1	New Inclusion	
60	B	66D	Kumul Gas Foreland 261 B.V	1	New Inclusion	
61	B	66E	Kumul Gas Foreland 268 B.V	1	New Inclusion	
62	B	66F	Kumul Gas Foreland 269 B.V	1	New Inclusion	
63	B	66G	Kumul Gas Niugini B.V	1	New Inclusion	
64	B	67	Livestock Development Corporation Limited	1	2009	31/10/2012
65	B	68	Mineral Resources Development Company Limited	1	2015	01/05/2019
66	B	71	NCD Water and Sewerage Limited (Eda Ranu)	1	2014	19/01/2016
67	B	73	PNG Air Services Limited	1	2015	08/08/2016
68	B	74	PNG DataCo Limited	1	2015	06/05/2019
69	B	77	Telikom (PNG) Limited	1	2014	29/07/2016
70	B	77B	Kalang Advertising Limited	1	2015	10/09/2018
71	B	77C	Media Niugini Limited (EMTV)	1	2016	26/03/2019
72	B	77D	PNG Directories Limited	1	2016	10/09/2018
				<b>72</b>		

## Schedule 'B'

### STATUS OF AUDITS IN ARREARS (2017 AND PRIOR YEARS)

#### (i) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Border Development Authority	2014	1
2	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	2014 to 2016	3
3	A	11	Government Printing Office	2016 & 2017	2
4	A	14	Industrial Centres Development Corporation	2017	1
5	A	15	Internal Revenue Commission	2016 & 2017	2
6	A	19	Legal Training Institute	2014 to 2016	3
7	A	24	National Broadcasting Corporation	2015 & 2016	2
8	A	25	National Capital District Commission	2016	1
9	A	25C	Port Moresby Nature Park Limited	2016	1
10	A	26	National Cultural Commission	2015 to 2017	3
11	A	34	National Research Institute	2017	1
12	A	36	National Training Council	2017	1
13	A	38	National Youth Development Authority	2017	1
14	A	41	Ombudsman Commission of Papua New Guinea	2017	1
15	A	47	Papua New Guinea Institute of Public Administration	2014 to 2017	4
16	A	52	Parliamentary Members' Retirement Benefits Fund	2017	1
17	A	53	Public Curator of Papua New Guinea	2014	1
18	A	56	Small and Medium Enterprises Corporation	2016 & 2017	2
19	A	58	University of Goroka	2017	1
20	B	66A	Eda Oil Limited	2017	1
21	B	66I	Kumul LNG Limited	2017	1
22	B	66J	Kumul Petroleum (Development) Limited	2017	1
23	B	66K	Kumul Petroleum (Investments) Limited	2017	1
24	B	66M	Kumul Petroleum (Pipeline) Limited	2017	1
25	B	66N	Kumul Petroleum (Tech & Advisory) Limited	2016 & 2017	2
26	B	71	NCD Water and Sewerage Limited (Eda Ranu)	2015	1
27	B	77A	DATEC (PNG) Limited	2017	1
28	B	77B	Kalang Advertising Limited	2016	1
29	B	77C	Media Niugini Limited (EMTV)	2017	1
30	B	77D	PNG Directories Limited	2017	1
					<b>44</b>

#### (ii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	9	Coffee Industry Corporation Limited	2016	1
2	A	9A	Coffee Industry Fund	2016	1
3	A	9B	Patana No.61 Limited	2016	1
4	A	18	Kumul Consolidated Holdings	2017	1
5	A	18A	General Business Trust	2017	1
6	A	18B	Kumul Technology Development Corporation Limited	2017	1
7	A	18C	PNG Dams Limited	2017	1
8	A	20	Mineral Resources Authority	2015 & 2016	2
9	A	21	National Agriculture Quarantine and Inspection Authority	2017	1

No.	Section	Para. No.	Entity	Year	No. of Audits
10	A	25C	Port Moresby Nature Park Limited	2017	1
11	A	31	National Information and Communications Technology Authority (NICTA)	2016 & 2017	2
12	A	44	Papua New Guinea Forest Authority	2013 & 2014	2
13	A	51	Papua New Guinea University of Technology	2017	1
14	A	51A	National Analytical and Testing Services Limited	2012	1
15	A	60	University of Papua New Guinea	2015	1
16	A	61	Water PNG	2017	1
17	B	63	Air Niugini Limited	2016	1
18	B	63D	Link-PNG Limited	2016	1
19	B	66Q	NPCP Oil Company Pty Limited	2015 to 2017	3
20	B	68	Mineral Resources Development Company Limited	2016	1
21	B	71	NCD Water and Sewerage Limited (Eda Ranu)	2016 & 2017	2
22	B	74	PNG DataCo Limited	2016	1
23	B	77	Telikom (PNG) Limited	2015 to 2017	3
24	B	77B	Kalang Advertising Limited	2017	1
					<b>32</b>

**(iii) AUDITS TO COMMENCE SHORTLY**

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	2	APEC Papua New Guinea 2018 Co-ordination Authority	2015 to 2017	3
2	A	4	Border Development Authority	2015 to 2017	3
3	A	6	Climate Change and Development Authority	2014 to 2017	4
4	A	9	Coffee Industry Corporation Limited	2017	1
5	A	9A	Coffee Industry Fund	2017	1
6	A	9B	Patana No.61 Limited	2017	1
7	A	24	National Broadcasting Corporation	2017	1
8	A	25	National Capital District Commission	2017	1
9	A	30	National Housing Corporation	2015 to 2017	3
10	A	30A	National Housing Estate Limited	2010 to 2014	5
11	A	43	Papua New Guinea Customs Service	2017	1
12	A	53	Public Curator of Papua New Guinea	2015 to 2017	3
13	A	58A	Unigor Consultancy Limited	2014 to 2016	3
14	A	59	University of Natural Resources and Environment	2015 & 2016	2
15	A	60	University of Papua New Guinea	2016 & 2017	2
16	B	74	PNG DataCo Limited	2017	1
					<b>35</b>

**(iv) FINANCIAL STATEMENTS NOT SUBMITTED**

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4A	Papua New Guinea Maritime Transport Limited	2013 to 2017	5
2	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	2017	1
3	A	10	Conservation and Environment Protection Authority	2017	1
4	A	19	Legal Training Institute	2017	1
5	A	20	Mineral Resources Authority	2017	1
6	A	25A	National Capital District Botanical Enterprises Limited	2013 to 2017	5
7	A	25B	Port Moresby City Development Enterprises Limited	2013 to 2017	5
8	A	28	National Fisheries Authority	2017	1
9	A	29	National Gaming Control Board	2016 & 2017	2
10	A	29A	National Gaming Control Board Community Benefit Fund Trust	2016 & 2017	2
11	A	30A	National Housing Estate Limited	2015 to 2017	3
12	A	37	National Volunteer Service	2017	1
13	A	40	Oil Palm Industry Corporation	2012 to 2017	6
14	A	44	Papua New Guinea Forest Authority	2015 to 2017	3
15	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2017	1
16	A	50	Papua New Guinea Sports Foundation	2016 & 2017	2
17	A	51A	National Analytical and Testing Services Limited	2013 to 2017	5
18	A	51B	Unitech Development and Consultancy Company Limited	2014 to 2017	4
19	A	54	Road Traffic Authority	2017	1
20	A	55	Security Industries Authority	2016 & 2017	2
21	A	58A	Unigor Consultancy Limited	2017	1
22	A	59	University of Natural Resources and Environment	2017	1
23	A	60A	Unisave Limited	2012 to 2017	6
24	A	60B	Univentures Limited	2012 to 2017	6
25	B	63	Air Niugini Limited	2017	1
26	B	63A	Air Niugini Cargo Limited	2017	1
27	B	63C	Business Travel Centre Limited	2017	1
28	B	63D	Link-PNG Limited	2017	1
29	B	66C	Kumul Gas Foreland 239 B.V	2017	1
30	B	66D	Kumul Gas Foreland 261 B.V	2017	1
31	B	66E	Kumul Gas Foreland 268 B.V	2017	1
32	B	66F	Kumul Gas Foreland 269 B.V	2017	1
33	B	66G	Kumul Gas Niugini B.V	2017	1
34	B	67	Livestock Development Corporation Limited	2010 to 2017	8
35	B	68	Mineral Resources Development Company Limited	2017	1
36	B	73	PNG Air Services Limited	2016 & 2017	2
					<b>86</b>

## Schedule 'C'

### LONG OUTSTANDING FINANCIAL STATEMENTS (2017 & PRIOR YEARS)

#### (i) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN ONE YEAR

No.	Section	Para. No.	Entity	No. of Audits
1	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	1
2	A	10	Conservation and Environment Protection Authority	1
3	A	19	Legal Training Institute	1
4	A	20	Mineral Resources Authority	1
5	A	28	National Fisheries Authority	1
6	A	37	National Volunteer Service	1
7	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	1
8	A	54	Road Traffic Authority	1
9	A	58A	Unigor Consultancy Limited	1
10	A	59	University of Natural Resources and Environment	1
11	B	63	Air Niugini Limited	1
12	B	63A	Air Niugini Cargo Limited	1
13	B	63C	Business Travel Centre Limited	1
14	B	63D	Link-PNG Limited	1
15	B	66C	Kumul Gas Foreland 239 B.V	1
16	B	66D	Kumul Gas Foreland 261 B.V	1
17	B	66E	Kumul Gas Foreland 268 B.V	1
18	B	66F	Kumul Gas Foreland 269 B.V	1
19	B	66G	Kumul Gas Niugini B.V	1
20	B	68	Mineral Resources Development Company Limited	1
				<b>20</b>

#### (ii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN TWO (2) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	29	National Gaming Control Board	2
2	A	29A	National Gaming Control Board Community Benefit Fund Trust	2
3	A	50	Papua New Guinea Sports Foundation	2
4	A	55	Security Industries Authority	2
5	B	73	PNG Air Services Limited	2
				<b>10</b>

#### (iii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN THREE (3) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	30A	National Housing Estate Limited	3
2	A	44	Papua New Guinea Forest Authority	3
				<b>6</b>

#### (iv) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FOUR (4) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	51B	Unitech Development and Consultancy Company Limited	4
				<b>4</b>

**(v) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FIVE (5) YEARS**

No.	Section	Para. No.	Entity	No. of Audits
1	A	4A	Papua New Guinea Maritime Transport Limited	5
2	A	25A	National Capital District Botanical Enterprises Limited	5
3	A	25B	Port Moresby City Development Enterprises Limited	5
4	A	51A	National Analytical and Testing Services Limited	5
				<b>20</b>

**(vi) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN SIX (6) YEARS**

No.	Section	Para. No.	Entity	No. of Audits
1	A	40	Oil Palm Industry Corporation	6
2	A	60A	Unisave Limited	6
3	A	60B	Univentures Limited	6
				<b>18</b>

**(vii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN EIGHT (8) YEARS**

No.	Section	Para. No.	Entity	No. of Audits
1	B	67	Livestock Development Corporation Limited	8
				<b>8</b>

## Schedule 'D'

### GOVERNMENT SHAREHOLDING IN COMPANIES

#### (i) NATIONAL GOVERNMENT MINORITY SHAREHOLDINGS IN OTHER COMPANIES

No.	Section	Para. No.	Entity	Remarks
1	C	79	Bougainville Copper Limited	2018 Audit Report Completed.
2	C	80	Gogol Reforestation Company Limited	Audited Financial Statement for 2010 - 2018 not Submitted

## Schedule 'E'

### AUDIT IN ARREARS (2017 AND PRIOR YEARS) COMPLETED DURING 2018/2019 AUDIT CYCLE

#### 2017 AUDITS - COMPLETED DURING 2018/2019

No.	Section	Para. No.	Entity	No. of Audits
1	A	3	Bank of Papua New Guinea	1
2	A	5	Civil Aviation Safety Authority of Papua New Guinea	1
3	A	7	Cocoa Board of Papua New Guinea	1
4	A	7A	Cocoa Pod Borer Project Fund	1
5	A	7B	Cocoa Stabilisation Fund	1
6	A	12	Independence Fellowship Trust	1
7	A	13	Independent Consumer and Competition Commission	1
8	A	16	Investment Promotion Authority	1
9	A	17	Kokonas Indastri Koporesen	1
10	A	17A	Papua New Guinea Coconut Extension Fund	1
11	A	17B	Papua New Guinea Coconut Research Fund	1
12	A	22	National Agricultural Research Institute	1
13	A	23	National AIDS Council Secretariat	1
14	A	27	National Economic and Fiscal Commission	1
15	A	32	National Maritime Safety Authority	1
16	A	33	National Museum and Art Gallery	1
17	A	35	National Roads Authority	1
18	A	39	Office of the Insurance Commissioner	1
19	A	42	Papua New Guinea Accident Investigation Commission	1
20	A	45	Papua New Guinea Immigration and Citizenship Service Authority	1
21	A	46	Papua New Guinea Institute of Medical Research	1
22	A	48	Papua New Guinea Maritime College	1
23	A	57	Tourism Promotion Authority	1
24	B	66	Kumul Petroleum Holdings Limited	1
25	B	66B	Kumul Exploration (Asia) Limited	1
26	B	66H	Kumul Lending Co Pte Limited	1
27	B	66L	Kumul Petroleum (Kroton) Limited	1
28	B	66O	Kumul Petroleum Marketing Pte Limited	1
29	B	66P	Kumul Security Agent Limited	1
30	B	69	Motor Vehicles Insurance Limited	1
31	B	70	National Airports Corporation Limited	1
32	B	70A	Airport City Development Limited	1
33	B	70B	Airports Investments Limited	1
34	B	72	Papua New Guinea Ports Corporation Limited	1
35	B	75	PNG Power Limited	1
36	B	76	Post (PNG) Limited	1
				<b>36</b>



## 2016 AUDITS - COMPLETED DURING 2018/2019

No.	Section	Para. No.	Entity	No. of Audits
1	A	7	Cocoa Board of Papua New Guinea	1
2	A	7A	Cocoa Pod Borer Project Fund	1
3	A	7B	Cocoa Stabilisation Fund	1
4	A	10	Conservation and Environment Protection Authority	1
5	A	14	Industrial Centres Development Corporation	1
6	A	18	Kumul Consolidated Holdings	1
7	A	18A	General Business Trust	1
8	A	18B	Kumul Technology Development Corporation Limited	1
9	A	18C	PNG Dams Limited	1
10	A	21	National Agriculture Quarantine and Inspection Authority	1
11	A	23	National AIDS Council Secretariat	1
12	A	28	National Fisheries Authority	1
13	A	33	National Museum and Art Gallery	1
14	A	35	National Roads Authority	1
15	A	38	National Youth Development Authority	1
16	A	39	Office of the Insurance Commission	1
17	A	41	Ombudsman Commission of Papua New Guinea	1
18	A	42	Papua New Guinea Accident Investigation Commission	1
19	A	43	Papua New Guinea Customs Service	1
20	A	45	Papua New Guinea Immigration and Citizenship Service Authority	1
21	A	46	Papua New Guinea Institute of Medical Research	1
22	A	48	Papua New Guinea Maritime College	1
23	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	1
24	A	54	Road Traffic Authority	1
25	A	58	University of Goroka	1
26	A	61	Water PNG	1
27	B	70	National Airports Corporation Limited	1
28	B	70A	Airport City Development Limited	1
29	B	70B	Airports Investments Limited	1
30	B	75	PNG Power Limited	1
31	B	77A	DATEC (PNG) Limited	1
32	B	77C	Media Niugini Limited (EMTV)	1
33	B	77D	PNG Directories Limited	1
				<b>33</b>

## 2015 AUDITS - COMPLETED DURING 2018/2019

No.	Section	Para. No.	Entity	No. of Audits
1	A	9	Coffee Industry Corporation Limited	1
2	A	9A	Coffee Industry Fund	1
3	A	9B	Patana No.61 Limited	1
4	A	10	Conservation and Environment Protection Authority	1
5	A	11	Government Printing Office	1
6	A	15	Internal Revenue Commission	1
7	A	23	National AIDS Council Secretariat	1
8	A	25	National Capital District Commission	1
9	A	25C	Port Moresby Nature Park Limited	1
10	A	28	National Fisheries Authority	1
11	A	29	National Gaming Control Board	1
12	A	29A	National Gaming Control Board Community Benefit Fund Trust	1
13	A	31	National Information and Communications Technology Authority (NICTA)	1

No.	Section	Para. No.	Entity	No. of Audits
14	A	33	National Museum and Art Gallery	1
15	A	38	National Youth Development Authority	1
16	A	42	Papua New Guinea Accident Investigation Commission	1
17	A	43	Papua New Guinea Customs Service	1
18	A	48	Papua New Guinea Maritime College	1
19	A	50	Papua New Guinea Sports Foundation	1
20	A	55	Security Industries Authority	1
21	A	58	University of Goroka	1
22	A	61	Water PNG	1
23	B	68	Mineral Resources Development Company Limited	1
24	B	70	National Airports Corporation Limited	1
25	B	70A	Airport City Development Limited	1
26	B	74	PNG DataCo Limited	1
27	B	77B	Kalang Advertising Limited	1
				<b>27</b>

#### 2014 AUDITS - COMPLETED DURING 2018/2019

No.	Section	Para. No.	Entity	No. of Audits
1	A	9	Coffee Industry Corporation Limited	1
2	A	9A	Coffee Industry Fund	1
3	A	9B	Patana No.61 Limited	1
4	A	15	Internal Revenue Commission	1
5	A	25	National Capital District Commission	1
6	A	25C	Port Moresby Nature Park Limited	1
7	A	26	National Cultural Commission	1
8	A	38	National Youth Development Authority	1
9	A	42	Papua New Guinea Accident Investigation Commission	1
10	A	43	Papua New Guinea Customs Service	1
11	A	50	Papua New Guinea Sports Foundation	1
12	A	60	University of Papua New Guinea	1
13	B	70	National Airports Corporation Limited	1
14	B	70A	Airport City Development Limited	1
15	B	77B	Kalang Advertising Limited	1
				<b>15</b>

#### 2013 AUDITS - COMPLETED DURING 2018/2019

No.	Section	Para. No.	Entity	No. of Audits
1	A	6	Climate Change and Development Authority	1
2	A	42	Papua New Guinea Accident Investigation Commission	1
3	B	70	National Airports Corporation Limited	1
4	B	70A	Airport City Development Limited	1
				<b>4</b>

#### 2012 AUDITS - COMPLETED DURING 2018/2019

No.	Section	Para. No.	Entity	No. of Audits
1	B	70	National Airports Corporation Limited	1
2	B	70A	Airport City Development Limited	1
				<b>2</b>



**AUDITOR GENERAL'S OFFICE**  
PAPUA NEW GUINEA