

Part IV Report of the Auditor General 2019

The Report contains;

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



Auditor-General's Office of Papua New Guinea



Part IV

Report of the Auditor-General

2019

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

OFFICE OF THE AUDITOR-GENERAL

10 September 2020

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 10th September 2020 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

2019 AUDITOR-GENERAL'S REPORT – PART IV

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GENERAL

A. FOREWORD

My Annual Report to the National Parliament for the 2019 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 and other audits as mandated. These Statutory Bodies 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 to the Medium Term Plan III 2018-2022 by attaining an inclusive sustainable economic growth through the following key result areas:

- Increase Revenue and Wealth Creation;
- Quality Infrastructure;
- Sustainable Social Development;
- Improved Law, Justice and National Security;
- Improved Service Delivery;
- Improved Governance;

- Responsible Sustainable Development; and
- Sustainable Population.

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 Finances (Management) (Amendment) Act 2018 (PFMA)

The submission of the financial statements of statutory bodies for audit is required under *Section 63(1) and (3)* of the *Public Finances (Management) (Amendment) Act 2018*. 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 1997

I am required to audit National Government owned Companies and their Subsidiaries under the provisions of the *Companies Act 1997*. Though these companies are registered under the *Companies Act 1997*, 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 2019 to June 2020 (2019/2020 Audit Cycle). The Report covers the audits of these entities' financial statements for a number of years, not just 2019.

In **2019** there were **123 public entities** subject to audit by my Office, consisting of **79 Public Bodies and their Subsidiaries** and **44 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, **78 entities** had not submitted their **2019 financial statements** to be audited and overall some **101 financial statements for 2018** and prior years had not been submitted for audit (**Refer Table A**). Moreover, the situation has deteriorated during this cycle.

Due to Covid-19 pandemic outbreak, Government response has resulted in virus lock-downs and reduced economic activities which has resulted in reduction of current year audits to 3 during 2019/2020 cycle. Further, 42 audits were either substantially completed, in progress or to commence shortly and 78 audits were unable to commence due to the non-submission of the financial statements during the 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 2020 (END OF 2019/2020 CYCLE)

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Total 2019/2020	Total 2018/2019
2019	3	1	32	9	78	123	-
2018	31	11	27	6	42	117	123
2017	22	13	17	6	25	83	119
2016	14	8	8	5	13	48	81
2015	5	6	5	4	8	28	55
2014	5	4	1	2	6	18	33
2013	1	1	1	2	5	10	14
2012	0	3	0	2	2	7	8
2011	0	1	0	2	0	3	2
2010	0	1	0	1	0	2	2
Total	81	49	91	39	179	439	437

Table A above shows that **221 audits** were either completed, substantially completed or still in progress as at 30 June 2020. The details are graphically depicted in **Attachment ‘C’**, which also included the arrears of prior years.

Table A also shows that of the **123 current year audits (2019)**, only **3 were completed**, with **33 audits** either substantially completed or in progress. A further **9 audits** were to commence shortly. Graphical description of the status of current year 2019 audits (excluding arrears) is given in **Attachment ‘A’**. The list of entities is at **Schedule ‘A’ (i), (ii), (iii), (iv) & (v)**.

E.4 Type of Audit Opinions Issued¹

In the period covered (July 2019 to June 2020) by the audit, **81 audit reports were issued**. Of the **81 audit reports issued**, **39 were unqualified**, **26 were qualified**, **15 were Disclaimer of Opinions** and **1 Adverse Opinion**. The details are captured in **Attachment ‘D’**.

Types of Audit Opinions issued for each entity over the period of seven years from **2013 to 2019** 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 in paragraph **E.9**.

- *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;*
- *Non payments of taxes to IRC (Group Tax & GST);*
- *Accounting, administrative and procedural manuals not being available;*
- *Employment contracts, salaries and contract gratuities not available; and*

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

- *Lack of knowledge, understanding and training in Integrated Financial Managements System (IFMS) in producing general purpose financial statements.*

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 **45 (37%)** entities have submitted their financial statements for 2019 (**Refer Schedule A (i), (ii), (iii) & (iv)**) for my audit and inspection up to the time of preparing this Report. A total of **78** 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, **42** entities have audits in arrears totaling to **101**. Details of audits that have gone into arrears due to non-submission of financial statements since 2012 are given below in **Table B** and **Schedule ‘B(iv)’**.

Table B
Financial Statements Not Submitted

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Border Development Authority	2018	1
2	A	4A	Papua New Guinea Maritime Transport Limited	2013 to 2018	6
3	A	6	Climate Change and Development Authority	2018	1
4	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	2017 & 2018	2
5	A	15	Internal Revenue Commission	2018	1
6	A	19	Legal Training Institute	2017 & 2018	2
7	A	20	Mineral Resources Authority	2017 & 2018	2
8	A	24	National Broadcasting Corporation	2018	1
9	A	25A	National Capital District Botanical Enterprises Limited	2013 to 2018	6
10	A	29	National Gaming Control Board	2018	1
11	A	29A	National Gaming Control Board Community Benefit Fund Trust	2018	1
12	A	30	National Housing Corporation	2018	1
13	A	30A	National Housing Estate Limited	2015 to 2018	4
14	A	34	National Research Institute	2018	1
15	A	36	National Training Council	2018	1
16	A	37	National Volunteer Service	2017 & 2018	2
17	A	40	Oil Palm Industry Corporation	2015 to 2018	4
18	A	44	Papua New Guinea Forest Authority	2017 & 2018	2
19	A	45	Papua New Guinea Immigration and Citizenship Service Authority	2018	1
20	A	47	Pacific Institute of Leadership and Governance	2018	1
21	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2017 & 2018	2
22	A	50	Papua New Guinea Sports Foundation	2016 to 2018	3
23	A	51A	National Analytical and Testing Services Limited	2013 to 2018	6
24	A	51B	Unitech Development and Consultancy Company Limited	2014 to 2018	5
25	A	52	Parliamentary Members' Retirement Benefits Fund	2018	1
26	A	53	Public Curator of Papua New Guinea	2018	1
27	A	55	Security Industries Authority	2017 & 2018	2
28	A	58	University of Goroka	2018	1
29	A	58A	Unigor Consultancy Limited	2016 to 2018	3
30	A	58B	Unigor Humi Catering Limited	2016 to 2018	3
31	A	59	University of Natural Resources and Environment	2016 to 2018	3
32	A	60	University of Papua New Guinea	2018	1
33	A	60A	Unisave Limited	2012 to 2018	7
34	A	60B	Univentures Limited	2012 to 2018	7
35	B	65C	Kumul Gas Foreland 239 B.V	2017 & 2018	2
36	B	65D	Kumul Gas Foreland 261 B.V	2017 & 2018	2
37	B	65E	Kumul Gas Foreland 268 B.V	2017 & 2018	2
38	B	65F	Kumul Gas Foreland 269 B.V	2017 & 2018	2
39	B	65G	Kumul Gas Niugini B.V	2017 & 2018	2
40	B	67	Mineral Resources Development Company Limited	2018	1
41	B	70	NCD Water and Sewerage Limited (Eda Ranu)	2018	1
42	B	72	PNG Air Services Limited	2016 to 2018	3

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;
- 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;*
 - *Internal Revenue Commission;*
 - *National Capital District Commission;*
 - *National Housing Corporation;*
 - *Papua New Guinea University of Technology;*
 - *PNG Customs Service;*
 - *University of Goroka; and*
 - *University of Papua New Guinea;*

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. However, the current health pandemic (Covid-19) may pose a challenge in achieving this objective.

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. However, 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 have not complied with provisions set out in the *Section (3)* of the *Salaries and Conditions Monitoring Committee 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:

- *Fresh Produce Development Agency;*
- *Kumul Minerals Holding Limited (formerly Petromin Limited);*
- *National Development Bank Limited;*
- *Ok Tedi Mining Limited;*
- *PNG Air Services Limited; and*
- *PNG Sustainable Development Program 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;

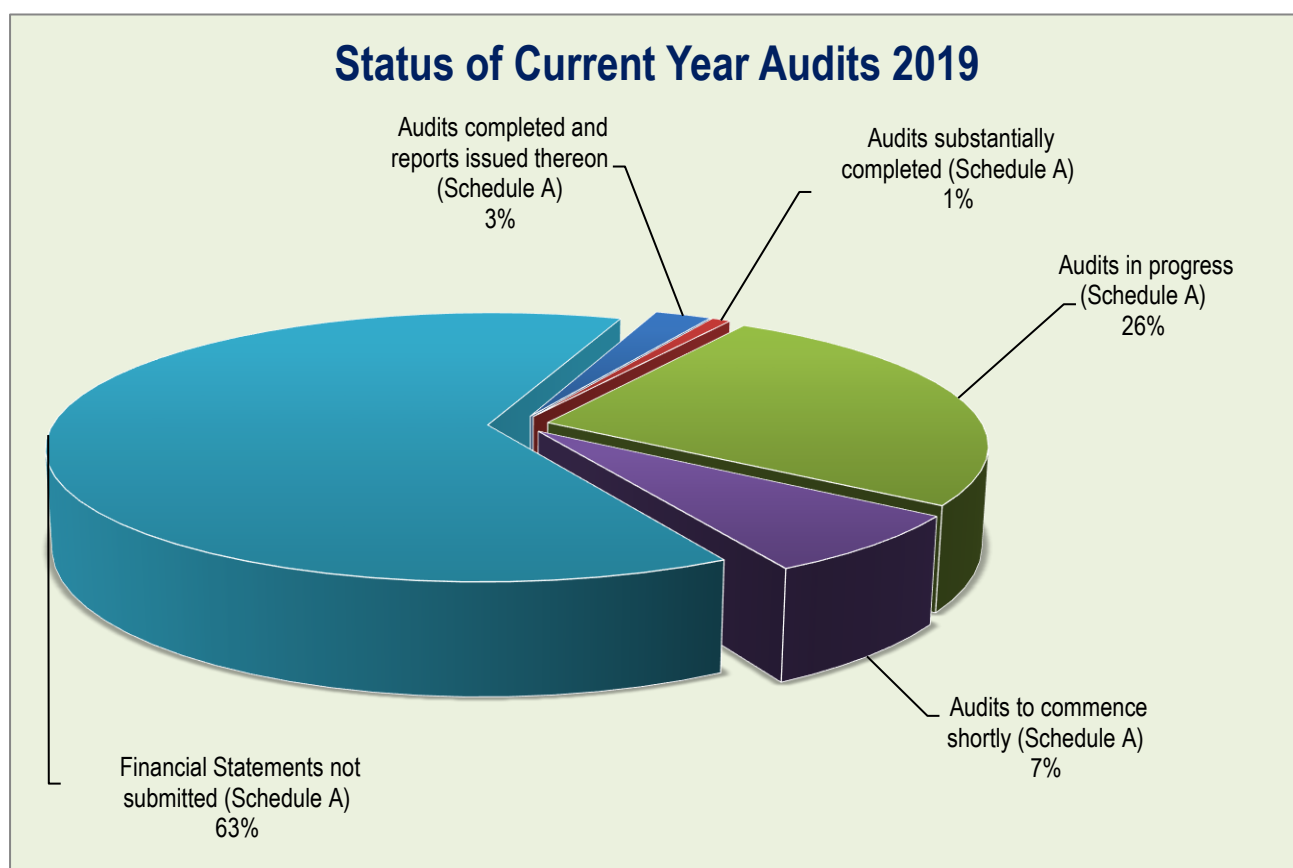
Section C – National Government Shareholdings in Other Companies; and

Section D – Problem Audits (Audits in Arrears).

ATTACHMENT 'A'

STATUS OF CURRENT YEAR AUDITS 2019

No.	Status of Current Year Audits	Number of Entities	
		2019/2020	2018/2019
1	Audits completed and reports issued thereon (Schedule A)	3	6
2	Audits substantially completed (Schedule A)	1	5
3	Audits in progress (Schedule A)	32	23
4	Audits to commence shortly (Schedule A)	9	17
5	Financial Statements not submitted (Schedule A)	78	72
		123	123

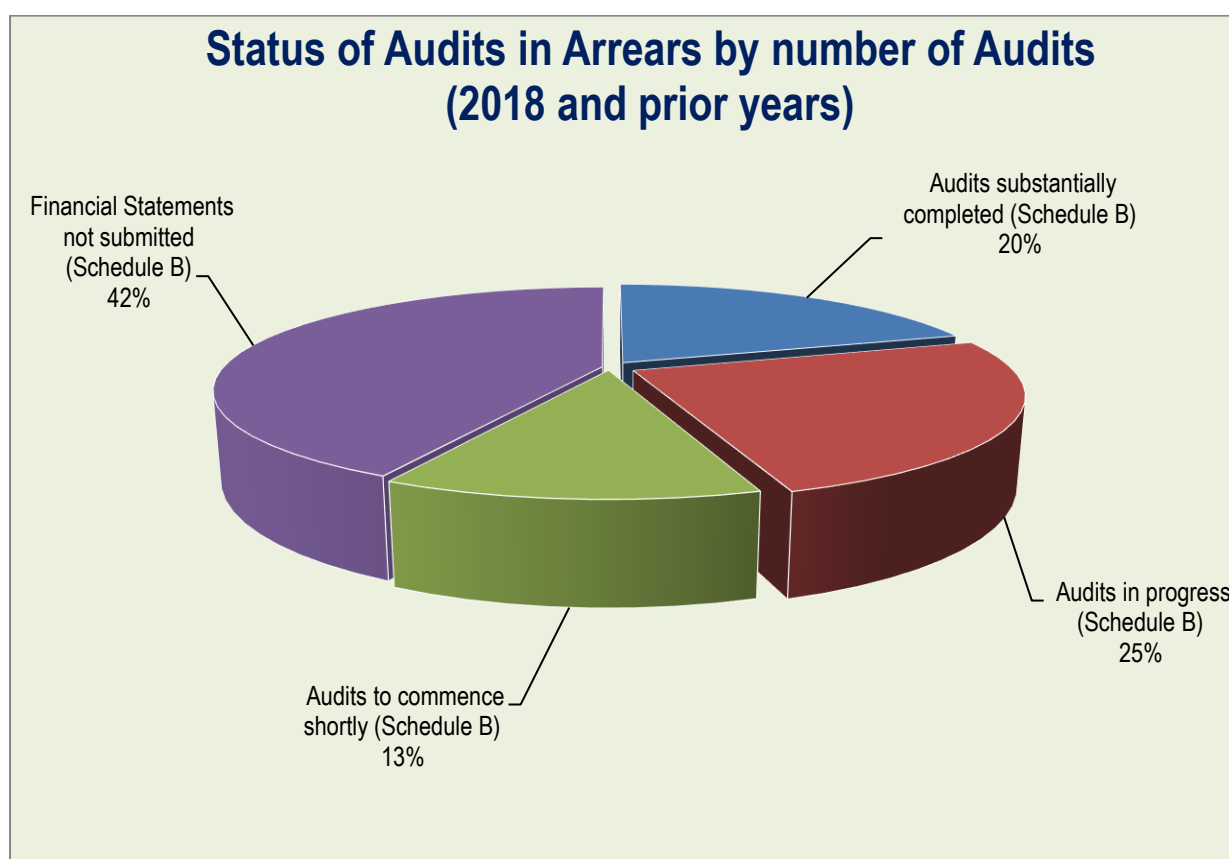


Please refer to details in Schedule 'A' on Pages 339 to 341.

ATTACHMENT 'B'

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2018 AND PRIOR YEARS)

No.	Status of Audits in Arrears by No. of Audits (2018 & prior years)	Number of Audits	
		2019/2020	2018/2019
1	Audits substantially completed (Schedule B)	48	44
2	Audits in progress (Schedule B)	59	32
3	Audits to commence shortly (Schedule B)	30	35
4	Financial Statements not submitted (Schedule B)	101	86
		238	197

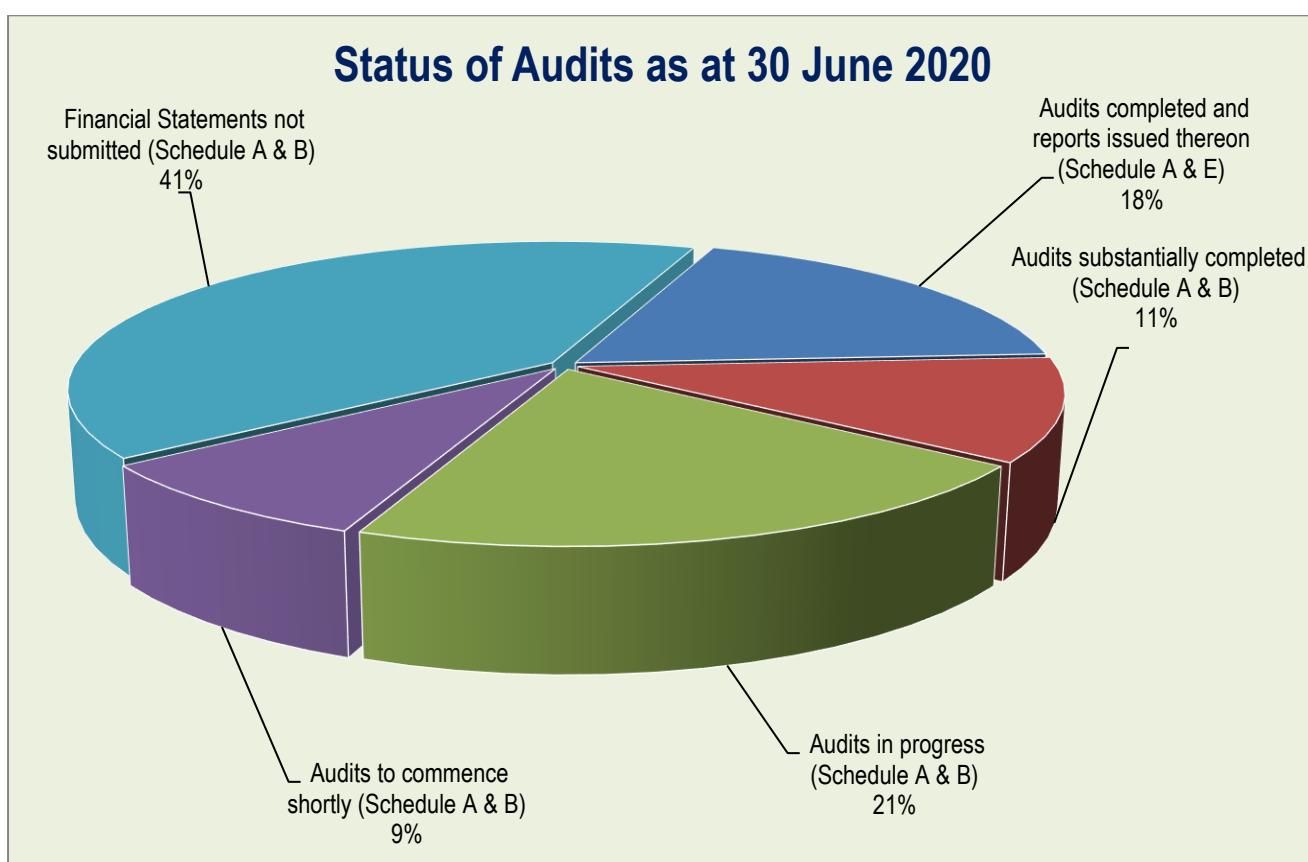


Please refer to details in Schedule 'B' on Pages 342 to 344.

ATTACHMENT 'C'

STATUS OF AUDITS AS AT 30 JUNE 2020

No.	Status of Audits	Number of Audits	
		2019/2020	2018/2019
1	Audits completed and reports issued thereon (Schedules A & E)	81	123
2	Audits substantially completed (Schedules A & B)	49	49
3	Audits in progress (Schedules A & B)	91	55
4	Audits to commence shortly (Schedules A & B)	39	52
5	Financial Statements not submitted (Schedules A & B)	179	158
		439	437



Please refer to details in Schedules 'A', 'B' and 'E' on Pages 339 to 341, 342 to 344 and 349 to 351 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	2019	1
2	A	12	Independence Fellowship Trust	2018 & 2019	2
3	A	13	Independent Consumer and Competition Commission	2018	1
4	A	16	Investment Promotion Authority	2018	1
5	A	17	Kokonasi Industri Koporese	2018	1
6	A	17A	Papua New Guinea Coconut Extension Fund	2018	1
7	A	17B	Papua New Guinea Coconut Research Fund	2018	1
8	A	18	Kumul Consolidated Holdings	2017	1
9	A	18C	PNG Dams Limited	2017	1
10	A	22	National Agricultural Research Institute	2018	1
11	A	25B	Port Moresby Nature Park Limited	2016	1
12	A	27	National Economic and Fiscal Commission	2018	1
13	A	32	National Maritime Safety Authority	2018	1
14	A	35	National Roads Authority	2018	1
15	A	51	Papua New Guinea University of Technology	2017	1
16	A	54	Road Traffic Authority	2017 & 2018	2
17	A	57	Tourism Promotion Authority	2018	1
18	B	65	Kumul Petroleum Holdings Limited	2018	1
19	B	65A	Eda Oil Limited	2017 & 2018	2
20	B	65B	Kumul Exploration (Asia) Limited	2018	1
21	B	65H	Kumul Lending Co Pte Limited	2018	1
22	B	65I	Kumul LNG Limited	2017 & 2018	2
23	B	65L	Kumul Petroleum (Kroton) Limited	2018	1
24	B	65M	Kumul Petroleum (Pipeline) Limited	2017 & 2018	2
25	B	65N	Kumul Petroleum (Tech and Advisory) Limited	2016 to 2018	3
26	B	65O	Kumul Petroleum Marketing Pte Limited	2018	1
27	B	65P	Kumul Security Agent Limited	2018	1
28	B	75	Post (PNG) Limited	2018	1
29	B	76A	DATEC (PNG) Limited	2017	1
30	B	76B	Kalang Advertising Limited	2016	1
31	B	76C	Media Niugini Limited (EMTV)	2017	1
32	B	76D	PNG Directories Limited	2017	1

(ii) QUALIFIED OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	5	Civil Aviation Safety Authority of Papua New Guinea	2018	1
2	A	10	Conservation and Environment Protection Authority	2017	1
3	A	14	Industrial Centres Development Corporation	2017	1
4	A	18A	General Business Trust	2017	1
5	A	18B	Kumul Technology Development Corporation Limited	2017	1
6	A	19	Legal Training Institute	2014 to 2016	3
7	A	21	National Agriculture Quarantine and Inspection Authority	2017	1
8	A	23	National AIDS Council Secretariat	2018	1
9	A	25	National Capital District Commission	2017 & 2018	2
10	A	41	Ombudsman Commission of Papua New Guinea	2017 & 2018	2
11	A	42	Papua New Guinea Accident Investigation Commission	2018	1
12	A	47	Pacific Institute of Leadership and Governance	2014	1
13	A	48	Papua New Guinea Maritime College	2018	1
14	A	55	Security Industries Authority	2016	1
15	A	56	Small and Medium Enterprises Corporation	2016 & 2017	2
16	B	67	Mineral Resources Development Company Limited	2016	1
17	B	68	Motor Vehicles Insurance Limited	2019	1
18	B	70	NCD Water and Sewerage Limited (Eda Ranu)	2015 & 2016	2
19	B	71	Papua New Guinea Ports Corporation Limited	2018	1
20	B	73	PNG DataCo Limited	2016	1

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(iii) DISCLAIMER OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	6	Climate Change and Development Authority	2014	1
2	A	9	Coffee Industry Corporation Limited	2016	1
3	A	9A	Coffee Industry Fund	2016	1
4	A	9B	Patana No.61 Limited	2016	1
5	A	24	National Broadcasting Corporation	2015	1
6	A	25	National Capital District Commission	2016	1
7	A	26	National Cultural Commission	2015 to 2017	3
8	A	38	National Youth Development Authority	2017	1
9	A	44	Papua New Guinea Forest Authority	2013 & 2014	2
10	A	58A	Unigor Consultancy Limited	2014 & 2015	2
11	B	77	Water PNG Limited	2017	1

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(iv) ADVERSE OPINION

No.	Section	Para. No.	Entity	Year	No. of Audits
1	B	64	Kumul Agriculture Limited	2018	1

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ATTACHMENT 'E'

COMPARATIVE AUDIT OPINIONS ISSUED (2013–2019)

No.	Section	Para. No.	Entity	Comparative Years							
				2019	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	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	Qualified	
6	A	6	Climate Change and Development Authority						Disclaimer	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	Disclaimer	
12	A	9A	Coffee Industry Fund				Disclaimer	Disclaimer	Disclaimer	Disclaimer	
13	A	9B	Patana No.61 Limited				Disclaimer	Disclaimer	Disclaimer	Disclaimer	
14	A	10	Conservation and Environment Protection Authority			Qualified					
15	A	11	Government Printing Office					Disclaimer	Disclaimer	Disclaimer	
16	A	12	Independence Fellowship Trust	Unqualified	Unqualified	Unqualified	Unqualified	Qualified	Qualified	Unqualified	
17	A	13	Independent Consumer and Competition Commission		Unqualified	Unqualified	Unqualified	Qualified	Qualified	Unqualified	
18	A	14	Industrial Centres Development Corporation			Qualified	Qualified	Qualified	Qualified	Qualified	
19	A	15	Internal Revenue Commission					Unqualified	Unqualified		
20	A	16	Investment Promotion Authority		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	
21	A	17	Kokonasi Industri Koporesen		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	
22	A	17A	Papua New Guinea Coconut Extension Fund		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	
23	A	17B	Papua New Guinea Coconut Research Fund		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	
24	A	18	Kumul Consolidated Holdings			Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	
25	A	18A	General Business Trust			Qualified	Qualified	Qualified	Qualified	Disclaimer	
26	A	18B	Kumul Technology Development Corporation Limited			Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer	
27	A	18C	PNG Dams Limited			Unqualified	Unqualified	Qualified	Disclaimer	Disclaimer	
28	A	19	Legal Training Institute				Qualified	Qualified	Qualified	Qualified	
29	A	20	Mineral Resources Authority						Qualified	Qualified	
30	A	21	National Agriculture Quarantine and Inspection Authority			Qualified	Qualified	Qualified	Qualified	Qualified	
31	A	22	National Agricultural Research Institute		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	
32	A	23	National AIDS Council Secretariat		Qualified	Unqualified	Unqualified	Qualified	Disclaimer	Disclaimer	
33	A	24	National Broadcasting Corporation					Disclaimer	Disclaimer	Disclaimer	
34	A	25	National Capital District Commission		Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer	
35	A	25A	National Capital District Botanical Enterprises Limited								
36	A	25B	Port Moresby Nature Park Limited				Unqualified	Unqualified	Unqualified	Qualified	
37	A	26	National Cultural Commission			Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	
38	A	27	National Economic and Fiscal Commission		Unqualified	Unqualified	Qualified	Qualified	Qualified	Qualified	

No.	Section	Para. No.	Entity	Comparative Years						
				2019	2018	2017	2016	2015	2014	2013
39	A	28	National Fisheries Authority				Disclaimer	Qualified	Qualified	Qualified
40	A	29	National Gaming Control Board					Qualified	Qualified	Qualified
41	A	29A	National Gaming Control Board Community Benefit Fund Trust					Qualified	Qualified	Qualified
42	A	30	National Housing Corporation						Disclaimer	Disclaimer
43	A	30A	National Housing Estate Limited							
44	A	31	National Information and Communications Technology Authority (NICTA)					Disclaimer	Disclaimer	Disclaimer
45	A	32	National Maritime Safety Authority		Unqualified	Unqualified	Unqualified	Unqualified	Qualified	Qualified
46	A	33	National Museum and Art Gallery		Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
47	A	34	National Research Institute				Qualified	Unqualified	Unqualified	Unqualified
48	A	35	National Roads Authority		Unqualified	Unqualified	Unqualified	Unqualified	Qualified	Qualified
49	A	36	National Training Council				Qualified	Qualified	Qualified	Qualified
50	A	37	National Volunteer Service				Qualified	Qualified	Qualified	Qualified
51	A	38	National Youth Development Authority			Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
52	A	39	Office of the Insurance Commissioner			New Inclusion				
53	A	40	Oil Palm Industry Corporation							
54	A	41	Ombudsman Commission of Papua New Guinea		Qualified	Qualified	Qualified	Unqualified	Qualified	Unqualified
55	A	42	Papua New Guinea Accident Investigation Commission		Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
56	A	43	Papua New Guinea Customs Service				Qualified	Qualified	Qualified	
57	A	44	Papua New Guinea Forest Authority						Disclaimer	Disclaimer
58	A	45	Papua New Guinea Immigration and Citizenship Service Authority			Unqualified	Qualified	Disclaimer	Disclaimer	Qualified
59	A	46	Papua New Guinea Institute of Medical Research			Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
60	A	47	Pacific Institute of Leadership and Governance						Qualified	Qualified
61	A	48	Papua New Guinea Maritime College		Qualified	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
62	A	49	Papua New Guinea National Institute of Standards and Industrial Technology				Qualified	Qualified	Qualified	Qualified
63	A	50	Papua New Guinea Sports Foundation					Disclaimer	Disclaimer	Disclaimer
64	A	51	Papua New Guinea University of Technology			Unqualified	Unqualified	Unqualified	Qualified	Qualified
65	A	51A	National Analytical and Testing Services Limited							
66	A	51B	Unitech Development and Consultancy Company Limited							Adverse
67	A	52	Parliamentary Members' Retirement Benefits Fund				Unqualified	Unqualified	Unqualified	Unqualified
68	A	53	Public Curator of Papua New Guinea							Disclaimer
69	A	54	Road Traffic Authority		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
70	A	55	Security Industries Authority				Qualified	Qualified	Qualified	Qualified
71	A	56	Small and Medium Enterprises Corporation			Qualified	Qualified	Qualified	Qualified	Qualified
72	A	57	Tourism Promotion Authority		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
73	A	58	University of Goroka				Disclaimer	Disclaimer	Disclaimer	Disclaimer
74	A	58A	Unigor Consultancy Limited					Disclaimer	Disclaimer	Disclaimer
75	A	58B	Unigor Humi Catering Limited							
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	B	62	Air Niugini Limited					Qualified	Qualified	Qualified

No.	Section	Para. No.	Entity	Comparative Years						
				2019	2018	2017	2016	2015	2014	2013
81	B	62A	Air Niugini Cargo Limited			New Inclusion				
82	B	62B	Air Niugini Properties Limited			New Inclusion				
83	B	62C	Business Travel Centre Limited			New Inclusion				
84	B	62D	Link-PNG Limited					Unqualified		
85	B	63	Bemobile Limited			New Inclusion				
86	B	63A	Bemobile (Solomon Islands) Limited			New Inclusion				
87	B	64	Kumul Agriculture Limited		Adverse					
88	B	65	Kumul Petroleum Holdings Limited		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	
89	B	65A	Eda Oil Limited		Unqualified	Unqualified	Unqualified			
90	B	65B	Kumul Exploration (Asia) Limited		Unqualified	Unqualified				
91	B	65C	Kumul Gas Foreland 239 B.V			New Inclusion				
92	B	65D	Kumul Gas Foreland 261 B.V			New Inclusion				
93	B	65E	Kumul Gas Foreland 268 B.V			New Inclusion				
94	B	65F	Kumul Gas Foreland 269 B.V			New Inclusion				
95	B	65G	Kumul Gas Niugini B.V			New Inclusion				
96	B	65H	Kumul Lending Co Pte Limited		Unqualified	Unqualified				
97	B	65I	Kumul LNG Limited		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	
98	B	65J	Kumul Petroleum (Development) Limited				Unqualified	Unqualified	Unqualified	
99	B	65K	Kumul Petroleum (Investments) Limited				Unqualified	Unqualified	Unqualified	
100	B	65L	Kumul Petroleum (Kroton) Limited		Unqualified	Unqualified	Unqualified			
101	B	65M	Kumul Petroleum (Pipeline) Limited		Unqualified	Unqualified	Unqualified			
102	B	65N	Kumul Petroleum (Tech and Advisory) Limited		Unqualified	Unqualified	Unqualified	Unqualified		
103	B	65O	Kumul Petroleum Marketing Pte Limited		Unqualified	Unqualified				
104	B	65P	Kumul Security Agent Limited		Unqualified	Unqualified				
105	B	65Q	NPCP Oil Company Pty Limited			New Inclusion				
106	B	66	Livestock Development Corporation Limited							
107	B	67	Mineral Resources Development Company Limited				Qualified	Disclaimer	Disclaimer	Disclaimer
108	B	68	Motor Vehicles Insurance Limited	Qualified	Qualified	Unqualified	Unqualified	Qualified	Qualified	Qualified
109	B	69	National Airports Corporation Limited		Disclaimer	Disclaimer	Qualified	Qualified	Qualified	Qualified
110	B	69A	Airport City Development Limited		Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
111	B	69B	Airports Investments Limited		Unqualified	Unqualified	Unqualified			
112	B	70	NCD Water and Sewerage Limited (Eda Ranu)				Qualified	Qualified	Qualified	Qualified
113	B	71	Papua New Guinea Ports Corporation Limited		Qualified	Unqualified	Unqualified	Unqualified	Qualified	Qualified
114	B	72	PNG Air Services Limited					Qualified	Qualified	Qualified
115	B	73	PNG DataCo Limited				Qualified	Qualified	Unqualified	
116	B	74	PNG Power Limited			Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
117	B	75	Post (PNG) Limited		Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
118	B	76	Telikom (PNG) Limited						Qualified	Qualified
119	B	76A	DATEC (PNG) Limited			Unqualified	Unqualified	Unqualified	Unqualified	
120	B	76B	Kalang Advertising Limited				Unqualified	Unqualified	Unqualified	Unqualified
121	B	76C	Media Niugini Limited (EMTV)			Unqualified	Unqualified			
122	B	76D	PNG Directories Limited			Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
123	B	77	Water PNG Limited			Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer

ATTACHMENT 'F'

AUDITS IN ARREARS (2018 AND PRIOR YEARS) COMPLETED DURING
2019/2020 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	2019	1		
2	A	4	Border Development Authority			2014	1
3	A	5	Civil Aviation Safety Authority of Papua New Guinea	2018	1		
4	A	6	Climate Change and Development Authority	2014	1		
5	A	8	Cocoa Coconut Institute Limited of Papua New Guinea			2014 to 2016	3
6	A	9	Coffee Industry Corporation Limited	2016	1		
7	A	9A	Coffee Industry Fund	2016	1		
8	A	9B	Patana No.61 Limited	2016	1		
9	A	10	Conservation and Environment Protection Authority	2017	1		
10	A	11	Government Printing Office			2016 to 2018	3
11	A	12	Independence Fellowship Trust	2018 & 2019	2		
12	A	13	Independent Consumer and Competition Commission	2018	1		
13	A	14	Industrial Centres Development Corporation	2017	1	2018	1
14	A	15	Internal Revenue Commission			2017 & 2018	2
15	A	16	Investment Promotion Authority	2018	1		
16	A	17	Kokonasi Industri Koporesen	2018	1		
17	A	17A	Papua New Guinea Coconut Extension Fund	2018	1		
18	A	17B	Papua New Guinea Coconut Research Fund	2018	1		
19	A	18	Kumul Consolidated Holdings	2017	1	2018	1
20	A	18A	General Business Trust	2017	1	2018	1
21	A	18B	Kumul Technology Development Corporation Limited	2017	1	2018	1
22	A	18C	PNG Dams Limited	2017	1	2018	1
23	A	19	Legal Training Institute	2014 to 2016	3		
24	A	20	Mineral Resources Authority			2015	1
25	A	21	National Agriculture Quarantine and Inspection Authority	2017	1		
26	A	22	National Agricultural Research Institute	2018	1		
27	A	23	National AIDS Council Secretariat	2018	1		
28	A	24	National Broadcasting Corporation	2015	1	2016	1
29	A	25	National Capital District Commission	2016 to 2018	3		
30	A	25B	Port Moresby Nature Park Limited	2016	1		
31	A	26	National Cultural Commission	2015 to 2017	3	2018	1
32	A	27	National Economic and Fiscal Commission	2018	1		
33	A	28	National Fisheries Authority			2017	1
34	A	31	National Information and Communications Technology Authority (NICTA)			2016	1
35	A	32	National Maritime Safety Authority	2018	1		
36	A	34	National Research Institute			2017	1
37	A	35	National Roads Authority	2018	1		
38	A	36	National Training Council			2017	1
39	A	38	National Youth Development Authority	2017	1		
40	A	39	Office of the Insurance Commissioner			2018	1
41	A	40	Oil Palm Industry Corporation			2012	1
42	A	41	Ombudsman Commission of Papua New Guinea	2017 & 2018	2		
43	A	42	Papua New Guinea Accident Investigation Commission	2018	1		
44	A	44	Papua New Guinea Forest Authority	2013 & 2014	2		
45	A	46	Papua New Guinea Institute of Medical Research			2018	1
46	A	47	Pacific Institute of Leadership and Governance	2014	1	2015 to 2017	3
47	A	48	Papua New Guinea Maritime College	2018	1		
48	A	51	Papua New Guinea University of Technology	2017	1		
49	A	51A	National Analytical and Testing Services Limited			2012	1
50	A	52	Parliamentary Members' Retirement Benefits Fund			2017	1
51	A	53	Public Curator of Papua New Guinea			2014	1
52	A	54	Road Traffic Authority	2017 & 2018	2		
53	A	55	Security Industries Authority	2016	1		
54	A	56	Small and Medium Enterprises Corporation	2016 & 2017	2		
55	A	57	Tourism Promotion Authority	2018	1		

No.	Section	Para. No.	Entity	Audits Completed and Reports Issued	Total Units	Audits Substantially Completed	Total Units
56	A	58	University of Goroka			2017	1
57	A	58A	Unigor Consultancy Limited	2014 & 2015	2		
58	A	59	University of Natural Resources and Environment			2015	1
59	B	64	Kumul Agriculture Limited	2018	1		
60	B	65	Kumul Petroleum Holdings Limited	2018	1		
61	B	65A	Eda Oil Limited	2017 & 2018	2		
62	B	65B	Kumul Exploration (Asia) Limited	2018	1		
63	B	65H	Kumul Lending Co Pte Limited	2018	1		
64	B	65I	Kumul LNG Limited	2017 & 2018	2		
65	B	65J	Kumul Petroleum (Development) Limited			2017 & 2018	2
66	B	65K	Kumul Petroleum (Investments) Limited			2017 & 2018	2
67	B	65L	Kumul Petroleum (Kroton) Limited	2018	1		
68	B	65M	Kumul Petroleum (Pipeline) Limited	2017 & 2018	2		
69	B	65N	Kumul Petroleum (Tech and Advisory) Limited	2016 to 2018	3		
70	B	65O	Kumul Petroleum Marketing Pte Limited	2018	1		
71	B	65P	Kumul Security Agent Limited	2018	1		
72	B	66	Livestock Development Corporation Limited			2010 to 2017	8
73	B	67	Mineral Resources Development Company Limited	2016	1		
74	B	68	Motor Vehicles Insurance Limited	2019	1		
75	B	70	NCD Water and Sewerage Limited (Eda Ranu)	2015 & 2016	2		
76	B	71	Papua New Guinea Ports Corporation Limited	2018	1		
77	B	73	PNG DataCo Limited	2016	1	2017	1
78	B	75	Post (PNG) Limited	2018	1		
79	B	76	Telikom (PNG) Limited			2015 to 2017	3
80	B	76A	DATEC (PNG) Limited	2017	1		
81	B	76B	Kalang Advertising Limited	2016	1		
82	B	76C	Media Niugini Limited (EMTV)	2017	1		
83	B	76D	PNG Directories Limited	2017	1		
84	B	77	Water PNG Limited	2017	1		
					81		48

SECTION A

PUBLIC BODIES AND THEIR SUBSIDIARIES

1. FOREWORD

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

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

2. 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 fieldwork associated with the inspection and audit of the accounts and records and examination of the financial statements of the Authority for the years ended 31 December 2015, 2016, 2017, 2018 and 2019 were in progress.

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 AND RECOMMENDATIONS

3.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Bank for the year ended 31 December 2019 was issued on 30 June 2020. The report did not contain any qualification.

3.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act*, on the inspection and audit of the accounts and records of the bank for the year ended 31 December 2019 was issued on 30 June 2020. The report contained the following significant matters:

OTHER MATTERS

Inscribed Stock

As disclosed in *Note 10* to the financial statements, the Bank has Inscribed stock amounting to K2.113 billion as at 31 December 2019 and K2.067 billion as at 31 December 2018. The Bank has an accounting policy of carrying the Inscribed stock at fair value through profit or loss. In my opinion, the current Inscribed stock should have been classified and carried at amortized cost, and accordingly the classification of Inscribed stock does not comply with *IFRS 9 Financial Instruments*. Had the Bank classified Inscribed stock as measured at amortized cost, a carrying value of K1.980 billion would have been recorded as at 31 December 2019 and K2.024 billion as at 31 December 2018, after recognizing expected credit losses. Total equity would have been reduced by K181.4 million as at 31 December 2019 and K87.3 million as at 31 December 2018. In addition, the fair value revaluation gain on domestic investments recorded in the statement of profit or loss and other comprehensive income would have been reduced by K85.1 million for the year ended 31 December 2019 and K5.3 million for the year ended 31 December 2018, interest income would have been reduced by K10.5 million for the year ended 31 December 2019 and increased by K4.7 million for the year ended 31 December 2018, and credit loss expense would have been decreased by K1.4 million for the year ended 31 December 2019, and increased by K0.6 million for the year ended 31 December 2018. I raised this issue and management responded as follows:

“In the past ten (10) years, the Bank has been holding the Government Inscribed Stock (GIS) as “Available for sale” which is consistent with its objective of Monetary Policy Implementation and Domestic Liquidity Management and will continue to form part of its strategy going forward. The bank continues to maintain that even though it collects cash flow while it holds the GIS, the objective is not achieved by both collecting contractual cash flows and selling the asset. This is because the collection of contractual cash flows from holding the asset is not integral to achieving the Bank’s objective of managing liquidity in the financial system; instead it is incidental to it.”

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. However, this Act was repealed and abolished Border Development Authority by Parliament through *Border Development Authority (Repeal) Act 2019*.

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 results were being evaluated.

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 years ended 31 December 2018 and 2019 for my inspection and audit.

However, I noted that Border Development Authority was abolished by Parliament in 2019.

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.

I noted that the *Border Development Authority Act 2008* was repealed and abolished Border Development Authority by Parliament through *Border Development Authority (Repeal) Act 2019*.

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, 2018 and 2019 for my inspection and audit despite numerous reminders.

Since the parent entity was abolished in 2019, I will continue to report until Papua New Guinea Maritime Transport Limited is fully liquidated and deregistered.

5. CIVIL AVIATION SAFETY AUTHORITY OF PAPUA NEW GUINEA

5.1 INTRODUCTION

5.1.1 Legislation

The Civil Aviation Safety Authority (CASA) 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 RECOMMENDATION

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 2018 was issued on 29 November 2019. The report contained a Qualified Opinion.

“QUALIFIED OPINION

In my Opinion except for the effects of the matter described in the Basis for Qualified Opinion paragraph below:

- (a) the financial statements of Civil Aviation Safety Authority for the year ended 31 December, 2018:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.

- (b) proper accounting records have been kept by the Authority, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanation required.

BASIS FOR QUALIFIED OPINION

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

Section 147E of the Civil Aviation Act 2000 stipulates for the NAC and the PNGASL to remit a 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 the 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 2018.”

5.2.2 Audit Observation Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2018 was issued on 29 November 2019. The report contained the following observation:

Non CASA Business Travels by Ministers

A total of K531,309 was spent under *Minister’s travel allowances account* during the year. The payments from this account were mostly related to electoral business and not related to CASA’s normal operational business. I advised that costs incurred by the Minister for Non CASA sanctioned business related activities imposed additional financial burden on CASA’s resources. Therefore, I recommended that the Minister’s Office be notified of the stance going forward and that no further unsanctioned Non CASA Business travel or associated costs be allowed to be met by CASA. The management responded as follows:

“Recommendation noted. Minister’s Secretariat will be advised accordingly.”

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 2019 had been completed and results were being evaluated.

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 2014 was issued on 19 March 2020. The report contained a Disclaimer of Opinion.

“DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph below, 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 2014.

BASIS FOR DISCLAIMER OF OPINION

Limitation on the Scope of my Audit

I was unable to confirm and verify all the figures reported in the statement of financial position, statement of income and expenditure, statement of changes in equity, and statement of cash flows for the year ended 31 December 2014 due to lack of supporting documentation and information and anomalies noted as follows:

- My report on the Office for the year ended 31 December 2013 was a disclaimer of opinion. As a result, I was unable to ensure accuracy and completeness of the opening balances entered into the determination of the results of operations and cash flows of the Office for the year ended 31 December 2014;
- I was not provided with the general ledgers, trial balances, profit & loss statement and balance sheet generated from the MYOB system which the management used to prepare the financial statements. The management stated that the MYOB accounting system crashed therefore, they were unable to retrieve the 2014 financial transaction records and data;
- There were no complete records of payment vouchers available. The management advised that most of the important records including payment vouchers were misplaced in the process of the Office moving continuously from one location to another;
- There was no audit trail. The amounts allocated to the respective income and expenditure line items were not supported with all relevant documents. I could not confirm their accuracy and completeness;
- There was no evidence of bank reconciliations performed on a monthly basis and for the whole year. Hence, I could not ensure the accuracy of the cash balance at year end; and
- As per the policy disclosed, the accounts of the Office are maintained on cash basis. However, I noted that the financial statements have been prepared and presented on accrual basis.”

6.3 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 2015, 2016 and 2017 were in progress.

The financial statements for the years ended 31 December 2018 and 2019 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 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Board for the Twelve months period ended 30 September 2018 and Three months period ended 31 December 2018 were in progress. The Board had submitted its financial statements for the additional three months period to 31 December 2018 to align its accounting period to match with Papua New Guinea's financial year end.

The Board had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

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 farmer's 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 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 twelve month period ended 30 September 2018 and three month period ended 31 December 2018 were in progress. The Board had submitted its financial statements for the additional three months period to 31 December 2018 to align its accounting period to match with Papua New Guinea's financial year end.

The Fund had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

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 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 twelve month period ended 30 September 2018 and three month period ended 31 December 2018 were in progress. The Board had submitted its financial statements for the additional three months period to 31 December 2018 to align its accounting period to match with Papua New Guinea's financial year end.

The Fund had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

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 on 18 October 2018. Despite numerous reminders, the Company's signed financial statements were awaited to enable me to issue these reports.

The Company had not submitted its financial statements for the years ended 31 December 2017, 2018 and 2019 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 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 29 November 2019. The report contained a Disclaimer of Opinion.

“DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs below, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the consolidated financial statements of Coffee Industry Corporation Limited as at 31 December 2016, its financial performance and its cash flows for the year then ended.

BASIS FOR DISCLAIMER OF OPINION**Opening Balances**

My report on the Corporation’s financial statements for the year ended 31 December 2015 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 and the Group in 2016, 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 2016.

Non Consolidation of Kofi Management Services Limited

Kofi Management Services Limited (KMSL) was incorporated as a subsidiary company of Coffee Industry Corporation Limited under the *Companies Act* on 21 February 2014. The Company has an operating bank account with Bank South Pacific Limited (BSP) since 2015. However, I noted that no separate set of accounting records was maintained to capture transactions made through the BSP account for the 2016 financial year, instead in the books of the parent company. A practice that is not in compliance with the *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 nor determine whether the account of the KMSL was appropriately consolidated with the parent company as required by *IAS 27, Consolidated and Separate Financial Statements*.

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 other important reconciliations were not maintained. In addition, I noted that the general ledgers were not properly reconciled.

These shortcomings had 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 2016.

Cash and Cash Equivalents – K7,037,895 (2015: K9,674,949)

During my review of the Cash and Cash Equivalents balance of K7,037,895 disclosed in *Note 7* to the consolidated financial statements, I was not provided with any bank reconciliations to perform the necessary audit procedures on the following accounts:

Account / Description	Amount (K)
Cash on Hand	67,121
Coffee Industry Fund (Cash at Bank)	(979,054)
Coffee Industry Fund (IDB)	5,479,806

Consequently, I could not verify the completeness, existence, rights and validity of the cash and cash equivalents balance reported in the financial statements.

Trade and Other Debtors – K11,624,573 (2015: K11,452,510)

Included in the Trade and Other Debtors balance of K11,624,573 as disclosed in *Note 10(a)* to the consolidated financial statements are the following accounts:

Account / Description	Amount (K)
Rental Debtors – Rent Receivable	1,008,948
Interest Receivables	105,717
Amount due from Project Partners (EU)	885,467
Sundry Debtors & Prepayments	4,482,965
GST Receivable	2,544,321
Staff Debtors	93,912
Other Debtors-Impasses	2,861,781
Provision for Doubtful Debts	(479,922)

During my review, 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 could not satisfy myself as to the completeness and accuracy of the trade and other debtors balance reported in the consolidated statement of financial position for the year ended.

Inventories – K598,991 (2015: K519,779)

As at 31 December 2016, the inventories of the Company was valued at K598,991 and disclosed in the consolidated financial statements. I did not observe and witness the physical inventory count conducted by the Company and further observed that adequate inventory records were not maintained during the period. Owing to the nature of the Company's records, I could not satisfy myself as to the inventory quantities by other alternative audit procedures.

Consequently, it has not been practicable to extend my audit procedures to satisfy myself on the completeness, existence, ownership and valuation of the inventories.

Property, Plant and Equipment – K12,918,635 (2015: K12,592,313)

The Company has not maintained sufficient records, including a Fixed Assets Register and title deeds of the lands and buildings to enable me to complete my audit procedure on its properties, plants and equipment valued at K12,918,635. No physical verification was 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 K6,822,740 in *Note 9* to the consolidated financial statements. Consequently, it has not been practicable to extend my audit procedures to satisfy myself on the completeness, existence, rights and valuation of the Company's properties, plants and equipment and related depreciations valued at K1,105,387 and charged to the consolidated statement of income and expenditure for the year ended.

Trade Creditors and Accruals – K9,079,756 (2015: K9,008,606)

As at 31 December 2016, trade creditors and accruals have been reported at K9,079,756 in the consolidated statement of financial position. Included in the balance are the following accounts:

Account / Description	Amount (K)
Trade Creditors (Control A/c)	826,703
Sundry Creditors & Accruals	5,115,551
Business Withholding Tax	222,580
Group Tax Clearing	744,887
GST Payable	1,981,600

During my review, I noted that 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 could not determine the completeness, accuracy and validity of the trade creditors and accruals balance of K9,079,756 reported at year ended.

Employee Provision – K145,697 (2015: K145,697)

Total employee provisions amounted to K145,697 was disclosed in *Note 12* to the consolidated financial statements. However, the ledgers of these accounts and detailed employee provision calculation schedules were not provided for my review. I further noted that the respective balances were being carried forward from previous year and current year accruals were not captured in the accounts. Consequently, I was unable to verify the completeness, accuracy and the validity of the employee provisions taken up in the financial statements for the year ended.

Accumulated Funds – K22,954,643 (2015: K25,085,250)

The total accumulated fund balance of K22,954,643 disclosed in the consolidated statement of changes in accumulated funds was derived after processing an adjustment of K3,478,727 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. During my examination, the Company was unable to explain the variance in the revenue reserve account to which the above adjustment was processed. As a result, I could not verify the validity of the balancing adjustment processed nor comment on the completeness and accuracy of the accumulated funds of K22,954,643.

Revenue – K21,289,224 (2015: K12,423,017)

The Company's total revenue for the year was K21,289,224. Included in this balance as disclosed in the detailed Statement of Income and Expenditure are the following:

Account / Description	Amount (K)
National Govt' Funding	3,598,560
Coffee Export Levy	7,035,180
Coffee Sales	1,086,154
Rental Income	1,236,509
Funding / Grants-Projects	7,000,000

During my review, I was not provided with sufficient appropriate audit evidence to verify the balances. I was therefore unable to test these balances by other alternative means nor comment on the completeness, accuracy and the validity of the Company's total revenue of K21,289,224 as reported.

Expenditure – K19,941,105 (2015: K25,048,944)

The Company's total expenditure for the year was K19,941,105 as disclosed in the detailed Statement of Income and Expenditure. 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 verify the expenditure balance. Consequently, I could not comment on the completeness, accuracy and validity of the balance and of the results and cash flows for the year then ended. I am also unable to place any reliance on the effectiveness of the internal controls operated during the year.

EMPHASIS OF MATTER

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 corporatize 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 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 submitted the financial statements for the year ended 31 December 2018 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 2019 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 report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Fund for the year ended 31 December 2016 was issued on 29 November 2019. The report contained a Disclaimer of Opinion.

“DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs below, 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 2016, and of its financial performance and financial position for the year then ended.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances

My report on the Fund for the year ended 31 December 2015 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 2016, 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 2016.

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 2016.

Trade and Other Debtors – K2,479,146 (2015: K3,211,705)

The financial statements reported K2,479,146 as trade debtors as at 31 December 2016. 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 debtors balance reported in the financial statements as K2,479,146 for the year ended.

Investments (IBD) – K5,479,806 (2015: K5,458,418)

Note 2(ii) to the financial statements disclosed K5,479,806 as Interest Bearing Deposit (IBD). However, I was not provided with IBD reconciliation statements or certificates for my verification. As such, I was unable to determine the ownership, completeness and accuracy of the Investment (IBD) balance taken up in the financial statements as K5,479,806 as at 31 December 2016.

Tax – K166,931 (2015: K170,006)

As at 31 December 2016 an amount of K166,931 was recorded as tax receivable from Internal Revenue Commission (IRC). This amount comprised of K32,138 and K134,793 as dividend withholding tax receivable and GST receivables respectively. There was a decrease of K3,075 from the prior year balance but no relevant documentation was made available for my review and verification. Further, these balances had been carried forward for a number of years. As a result, I was unable to comment on the completeness, accuracy and appropriateness of the tax receivable balance disclosed at year end.

Trade Creditors – K32,138 (2015: K32,138)

Trade Creditors was disclosed at K32,138 as at 31 December 2016. However, no appropriate documentation or listing was made available for my review to determine the validity of this balance which has been carried forward without any movement for number of years. Consequently, I was unable to ascertain the completeness and accuracy of the trade payable balance reported at year end.

Interest Income – K45,839 (2015: K22,919)

The Fund disclosed in its Profit and Loss statement K45,839 as interest income for the year. However, no records were made available for my review. Therefore, I was unable to comment on the accuracy and completeness of the interest income for the year 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 its financial statements of the Fund for the year ended 31 December 2017 was in progress.

The Fund had submitted its financial statements for the year ended 31 December 2018 for my inspection and audit and arrangements were being made to commence the audit shortly.

The Fund had not submitted its financial statements for the year ended 31 December 2019 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 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 29 November 2019. The report contained a Disclaimer of Opinion.

“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 2016 and of its financial performance for the year then ended.

BASIS FOR DISCLAIMER OF OPINION

Opening Balance

My report for the year ended 31 December 2015 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 entered into the determination of the results of operations and cash flows of the Company in 2016, 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 2016.

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.

I also noted that 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 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 2016.

Inter-Company Loan Payable – (K806,393)

I was not provided with the loan agreement entered into between the Company and its parent entity (Coffee Industry Corporation Limited) 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 2016.

Fixed Assets – K559,705

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 K559,705 in the balance sheet. 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 cost of K786,744 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, ownership and valuation of the Company's property, plant and equipment and related depreciations of K7,713 charged to the profit and loss statement."

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 2017 was in progress.

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

The Company had not submitted its financial statements for the year ended 31 December 2019 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 (CEPA).

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 OBSERVATIONS AND RECOMMENDATIONS

10.2.1 Comments on Financial Statements

My report to the Minsters under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2017 was issued on 22 June 2020. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- (a) the financial statements of Conservation and Environment Protection Authority for the year ended 31 December 2017:
 - (i) give a true and fair view of the financial position and the results of its financial performance for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *Public Finance (Management) (Amendment) Act 2016* and other generally accepted accounting practice in Papua New Guinea.
- (b) proper accounting records have been kept by the Authority, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Fixed Assets – K1,108,876

My review of the Authority's fixed assets and Fixed Assets Register (FAR) revealed the following:

- Assets were not tagged with serial numbers to identify and confirm their existence and their custodian;

- A vehicle and several computers were donated or given away to staff without proper approval and documentation;
- The assets donated/given away were not removed and updated in the FAR;
- No stock take was carried out during the year under review; and
- No fixed assets policy to properly record and manage the fixed assets.

As a result, I was unable to verify and confirm the completeness, accuracy and existence of the fixed assets balance presented in the financial statements.”

10.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2017 was issued on 22 June 2020. The report contained the following observations:

Expenditure – Cost Management

My review of the expenditure of the Authority revealed that several expenditure items including transport and fuel, travel and subsistence, vehicle hire and administrative consultancy fees exceeded their budget limits under the GO PNG Drawing Account. *Section 37* of the *Conservation and Environment Protection Authority Act 2014* requires the Authority to prepare annual plan and budget estimates for receipts and expenditures. However, there was no detailed budget of the money received from the CEPA fees to guide the expenditure. Consequently, the Authority expended excessively on the hire cars and administrative consultancy fees. As such, I was unable to confirm whether proper systems and procedures were in place to control the expenditure.

Trade Debtors

I noted existence of weakness in the collection of debts from the permit holders on timely basis to comply with *Section 33 (7)* of the *Conservation and Environment Protection Authority Act 2014*. Consequently, about K27 million worth of debts were more than 90 days due. Poor management of debt collection procedures may result in cash flow pressures and permit holders may continue to exercise the licenses without paying the fees; hence, not complying with the *Conservation and Environment Protection Authority Act 2014* and *Environment Act 2000*.

I brought this issue to the management and recommended that a strong debt recovery policy has to be in place and legal action taken against the permit holders with long due debts as per the Authority’s Act and the management responded as follows:

“Agree with audit recommendations.”

Cash at Bank

My review of the cash at bank and bank reconciliation process revealed that the Authority's monthly bank reconciliations were done systematically by the MYOB Accounting System. However, the reconciliations lacked manual reviewing and authorization by senior officers of the Authority. In addition, K23,732 cash collected from various fees in 2016 were never deposited or had no details of deposit between 2016 and 2017 and remain as undeposited cash in the general ledger. As a result, I was not able to comment on the effectiveness of the controls surrounding the management of cash and bank reconciliation process. I raised this issue and management responded as follows:

"CEPA to improve internal controls including regular bank reconciliations of accounts."

Lack of Proper Supporting Documentation

I was unable to ascertain the validity and accuracy of payments totaling K1,550,949 and whether goods and services were received and value for money achieved due to lack of supporting documentations including proper receipts, invoices or delivery dockets. Further, several payments made to unknown suppliers which carried significant amount had no records on file. I brought this issue to the management and they responded as follows:

"CEPA to improve internal controls and set up a procurement unit to ensure proper documentation, payment processes and acquittals processes are in place."

Operational Policy Manuals

My review revealed that the operational and procedural manuals such as finance and accounting procedural manual, fixed assets policy, travel advance register and policy and debt collection policy were not in place. In the absence of clearly designed and approved policy manuals and guidelines, there is a high risk of abuse and malpractice to take place within the Authority. 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 the respective divisions/sections.

I brought this issue up and management responded that the Authority had engaged a consultant to draft the policies and Fixed Assets Register. In addition, a procurement unit was established in 2019 to monitor all advances (including acquittals).

Internal Audit Function

I noted that the Authority did not have in place an internal audit function. As such, there was no proper control mechanism in place to ensure policies and procedures put in place by the board of governance are properly followed and applied in the Authority's daily operations. I brought this issue up and management responded as follows:

“An internal audit unit be established once the CEPA's organization restructure is completed and approved. Note that in 2013, the Department of Personnel Management (DPM) gave an instruction by way of circular to all departments to halt recruitment of vacancies, this has resulted in positions not yet filled to this day and this includes the internal audit vacancy.”

Management Information System (MIS)

The Authority did not have a MIS and kept manual records in conjunction with PGAS. I also noted that MYOB Accounting System was used to create general ledger for the purpose of audit. However, MYOB system was only installed in external consultant's computer. There was no centralized server or data base installed and connected. I raised this issue with the management and management responded as follows:

“CEPA to work with the engaged consultant to ensure the MIS and server are installed and connected immediately.”

10.3 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.

The Authority had not submitted its financial statements for the year ended 31 December 2019 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 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 Office for the years ended 31 December 2016 and 2017 had been completed and the audit reports were expected to be issued shortly.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Office for the year ended 31 December 2018 had been completed and the results were being evaluated.

The Office had not submitted its financial statements for the year ended 31 December 2019 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

12.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Trust for the years ended 31 December 2018 and 2019 were issued on 29 August 2019 and 29 June 2020 respectively. The reports did not contain any qualification.

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 2018 was issued on 30 September 2019. The report did not contain any qualification.

13.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission's financial statements for the year ended 31 December 2019 had been submitted and arrangements were being made to commence the audit shortly.

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 2017 was issued on 2 September 2019. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- 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 2017 and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION

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

The Corporation has disclosed its trade debtors balance as K3,520,441 (included as part of total debtors of K3,810,007) in the financial statements at 31 December 2017. I noted that of the K3,520,441 receivable, K3,026,878 has been 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 a result, I was unable to satisfy myself as to the accuracy and collectability of the trade debtors as reported at the year end.

Fixed Assets – K63,527,082

My review of the fixed assets for 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 2017. I further noted that the disposals of Land and Building and Computer Equipment during the year were not approved by the Corporation's Board. Further, the Corporation has not conducted any stock take of its fixed assets for a number of years. As a result, I was unable to place reliance on the effectiveness of the controls surrounding the management of the fixed assets. Consequently, I was not able to comment on the condition, valuation and existence of the fixed assets as disclosed in the financial statements at the year end.

Land Sales Debtors – K289,566

Included in the total debtors of K3,810,007 were land sales debtors totaling K289,566. I observed that land sales debtors have 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 2017.

Provision for Doubtful Debt - K1,492,333

I noted that the Corporation has made a provision for doubtful debts totaling K70,178 during the year under review, thus brought the total provision of doubtful debts to K1,492,333. However, there was no policy on provisions and basis of calculations of provision for doubtful debts. Further, I was not provided with either the schedule and general ledger transactions listing of the doubtful debts of K70,178 as disclosed in the financial statements. As a result, I was unable to ascertain the accuracy, completeness and valuation of the provision for doubtful debts as disclosed in the financial statements at 31 December 2017.

Cash at Bank – K2,399,412

The independent bank confirmation certificate for the Bond account with Malahang Industry Centre for the year ended 31 December 2017 was not provided for my review. As a result, I was unable to confirm the closing bank balance as reported in the financial statements.”

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 2017 was issued on 2 September 2019. The report contained the following observations:

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

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 Finance (Management)(Amendment) Act 2016*. Consequently, the Corporation had breached *Section 63(1) and 63(3)* of the above *Act*.

Board Minutes

I noted that there were eleven (11) Board meetings held during the year under review. Out of the eleven meetings, seven (7) were special meetings and four (4) were quarterly meetings that were held in February, August, October and December respectively. However, I noted that all the meeting minutes were not signed by the Chairman to confirm the minutes were correct and true recording of the proceedings at the meetings. As a result, I was unable to comment and conclude on whether there were proper proceedings held and whether all major transactions and decisions made and transpired were in the best interest of the Corporation. I queried the management of the Corporation and they responded to my observation as follows:

“The management has agreed and gave direction to the Board Secretary to ensure all board meeting minutes are signed chronologically to confirm that minutes are true and correct resolutions of the Board.”

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 had been outstanding (without movement) for a considerable period of time. The management responded to my query as follows;

“Management also agreed and directed during its meeting that this list be checked, reviewed and the outstanding balances be confirmed and letters be written to the people concerned to pay the outstanding or legal action will be taken against them. And because these accounts have been outstanding for so long the other option is for management to seek Board approval to 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.”

GST Payable – K1,183,455

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 must 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:

“GST payables relates mainly to unpaid invoices from MIC tenants who have accounts in arrears with rentals. This is directly related to Trade Debtors. We have had several meetings with IRC POM and Lae with regards to outstanding GST returns and we both agreed to settle the outstanding liability and moving forward and reaching an agreement for them (IRC) to waiver the charges/penalties imposed. After complying and remitting payments on a timely basis, we are now current with GST and SWT. IRC and ICDC are working together on this.”

Travel Advance / Acquittal Register

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

“Management has taken note and agrees that this is an ongoing problem. The matter is now being addressed with management taking steps to appoint a qualified accounts Officer to handle this issue.”

Lease Agreement

During my review, I noted that the Lease Agreement between Telikom PNG Ltd and the Corporation for the office rental had expired in 2016. As a result, I was unable to ascertain the monthly payment of K32,500 for office rental with a total rental of K390,000 incurred during the year under review. I recommended the management to renew the office lease agreement with Telikom (PNG) Ltd so that monthly rental payment complies with the rates agreed in the lease agreement and the Corporation responded as follows:

“There have been a series of constant dialogue with the Landlord (Telikom) through telephone, letters and email for new lease Agreement to ensure payments of rentals were done but to no avail. Hence, ICDC has refused to pay its rental fees until a proper Lease Agreement is in place.”

Goods and Service Procurement Process Weaknesses

My review of the Corporation’s procurement processes revealed the following control weaknesses:

- The total cheque payments of K126,869 lacked three (3) quotations for goods and services worth K5,000 and over as required by the *Public Finance (Management) (Amendment) Act 2016*;
- The total expenses of K413,292 had no proper supporting documentations such as invoices, receipts and cheques copies to substantiate the validity and completeness of the expenses incurred for the year ended 31 December 2017; and
- The total cheque payments of K99,130 and K93,262 were not approved by the Managing Director and Corporate Service Director apart from signing the cheques for payments.

As a result, I was unable to place reliance on the effectiveness on the controls surrounding the procurements process of the Corporation. Also the Corporation is in breach of *Public Finance (Management) (Amendment) Act 2016*. I brought this to the attention of the Management and they responded that:

“Appropriate measures and steps have been taken to comply with the Public Finance Management Amendment Act 2016 to address some of the issues highlighted such as obtaining three (3) quotes for payments over K5,000 and to ensure all proper documentation are attached with payments vouchers duly signed and approved by the accountable Officers.”

Other Internal Control Weaknesses

Other weaknesses noted during my review were:

- Certain cost on preliminary activities were over spent by the Corporation on the projects and they are still 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;
- There were no assets identification numbers or tags allocated to each assets listed in the Fixed Assets Register;
- The salary history cards for the staff were not updated by the HR in terms of base salary, higher duty allowance, other allowances and leave records such as recreational, sick, compassionate and long service leaves;
- Recreational leave fares were paid to the employees and dependents without valid supporting documents such as birth and marriage certificates; and
- There was no Internal Audit Unit established as per *Section 9 Subsection 6* of the *Public Finances (Management) (Amendment) Act 2016*.

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 2018 had been completed and the management letter was issued on 12 May 2020. The management letter responses were being awaited to finalise and issue the audit reports.

The Corporation had not submitted its financial statements for the year ended 31 December 2019 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 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 on 23 April 2019 and 20 June 2019 respectively. Despite repeated reminders, the management responses along with the signed financial statements were being awaited to finalise the audit reports.

The Commission had not submitted its financial statements for the years ended 31 December 2018 and 2019 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 2018 was issued on 27 January 2020. The report did not contain any qualification.

16.2.2 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 2018 was issued on 27 January 2020. The report contained the following observations:

Fixed Assets

My review of the fixed assets for the year ended 31 December 2018 revealed that the Authority had not fully complied with *Part 32* of the *Financial Management Manual* by not maintaining an updated Fixed Assets Register. Physical assets recorded in the Fixed Assets Register were not tagged and labelled with serial numbers and no proper stock take was carried out during the year to update the Fixed Assets Register.

I brought this issue to the attention of the management and the management noted my concerns and responded as follows:

“We have commenced on this project by way of recruiting an accounting graduate; and purchased a label printer; we have adopted a naming convention; and we have commenced labeling existing assets here at the head office; the final step yet to be implemented is to purchase fixed assets register software. We note the audit recommendation and will address the issue accordingly.”

Personnel Files

My examination of the Authority’s personnel files revealed lack of proper maintenance of staff salary ledgers/cards, gratuity records, and leave history for employees. I stressed the importance of proper filing and regular update of records for ease of access to employee’s information and to facilitate correct calculation of their entitlements. As a result, I was unable to confirm on what basis salaries and allowances were paid.

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

“We agree with the audit findings on not maintaining salary history cards for all officers. Our Human Resource team have been made aware of this recommendation, hence, will commence preparing salary history cards for all officers for 2020 and onwards. We note the recommendation and will adhere.”

Leave Fares

I noted that a total of K280,548 was paid by the Authority to its employees and their dependents as leave fares during the year. However, I was unable to verify the validity and authenticity of the staff dependents (children) ages for leave fares as no birth certificates were attached to the payment vouchers or in their personnel files.

I drew management’s attention to the requirements of the *General Orders 14.41* for compliance. The management responded to my observation as follows:

“We are not sure why HR team didn’t request birth certificates; however, notice will be issued to staff to provide legal documentation of their natural born children and adopted children who are 18 years and below.”

Travel Acquittal and Travel Advance Register

The *Financial Management Manual, Part 20, paragraph 14.1* stipulates that an advance register be maintained to keep record of all advances authorized. Also, the *paragraph 11.2* requires travel advances to be acquitted within 14 days of return from overseas travels whilst *paragraph 12.10* requires that travel advances from domestic travels be acquitted within 7 days from the day of return.

However, my review revealed that a travel advance register had not been maintained by the Authority. Hence, the travel and subsistence expenses were not acquitted with proper acquittal documents such as the receipts/invoices, boarding passes and other relevant supporting documents. Consequently, I could not verify a total of K228,419 paid for travel and subsistence expenses during the year under review.

This issue was brought to the attention of the management and the management noted my concerns and responded as follows:

“We concurred that the travel advance register had not been frequently updated during the year to ensure acquittals are done after an officer returns from duty travel. We note the recommendation and will adhere.”

16.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had submitted the financial statements for the year ended 31 December 2019 for my inspection and audit and arrangements were being made to commence the audit shortly.

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 Indastri Koporesen Act 2002* which established the Kokonas Indastri Koporesen (*KIK*). The new Act decentralised copra buying and selling in PNG and required KIK to only regulate the copra price in PNG.

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.

17.1.3 Funds of the Koporesen

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

17.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

17.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Koporesen for the year ended 31 December 2018 was issued on 29 May 2020. The report did not contain any qualification.

17.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Koporesen for the year ended 31 December 2018 was issued on 29 May 2020. The report contained the following observations:

Land & Building – No Land Title Deeds

I noted that the Koporesen disclosed K20,529,450 as its closing balance for Land and Buildings at year end. However, my review of its records revealed that the Koporesen had disclosed two (2) land portions (Section 16 Allotment 13, in Kimbe and Section 31 Allotment 11 Mangola Street, in Lae) as part of its assets without obtaining their land titles/ownerships.

The total value of land and improvements disclosed was K2,113,000 and K1,349,000 respectively on these portions.

Further, there were unresolved issues related to those portions of land between other State entities (NAQIA and PNG Ports) and the Koporesen. In relation, I noted that the land titles are held by other State entities whilst the sheds (buildings) were erected by the Koporesen. As such, the Koporesen's disclosure of both land and improvement values would be a departure from IAS 16 as ownership of land was in dispute.

Investments

Note 7 of the financial statements disclosed that in 2017, the PNG Cocoa Coconut Institute (PNGCCI) was abolished and its functions and staff subsumed by the Koporesen commencing this year. As such, the Koporesen's investment of K266,003 would be reassessed once PNGCCI is finally liquidated and deregistered.

17.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Koporesen had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

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 Indastri 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 2018 was issued on 29 May 2020. The report did not contain any qualification, however, a going concern issue is reproduced as follows:

“Going Concern

I refer to *Note 1* of the Extension Fund’s financial statements which disclose that the Fund was abolished in 2017 and its extension functions and staff subsumed by the Kokonas Indastri Koporesen. A registered liquidator would be appointed to formally liquidate PNG Cocoa Coconut Institute (PNGCCI) and deregistered from the register of companies. I will continue to report until PNGCCI is fully liquidated and deregistered and its related functions are formally transferred to KIK and Cocoa Board. My opinion is not modified in respect of this matter.”

17A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Fund had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

17B. PAPUA NEW GUINEA COCONUT RESEARCH FUND

17B.1 INTRODUCTION

17B.1.1 Legislation and Objective of the Research 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 2018 was issued on 29 May 2020. The report did not contain any qualification, however, a going concern issue is reproduced as follows:

“Going Concern

I refer to *Note 1* of the Research Fund’s financial statements which disclosed that the Fund was abolished in 2017 and its research functions and staff subsumed by the Kokonas Industri Koporesen. A registered liquidator would be appointed to formally liquidate PNG Cocoa Coconut Institute (PNGCCI) and deregistered from the register of companies. I will continue to report until PNGCCI is fully liquidated and deregistered and its related functions are formally transferred to KIK and Cocoa Board. My opinion is not modified in respect of this matter.”

17B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Research Fund had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

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 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 the *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 2017 was issued on 28 February 2020. 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 2018 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 Corporation for the year ended 31 December 2019 was in progress.

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.

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 2017 was issued on 28 February 2020. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- (a) the financial statements of General Business Trust for the year ended 31 December 2017:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.

- (b) proper accounting records have been kept by the Trust, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Value and Ownership of Lancron Naval Base Property

My report of the Trust for the year ended 31 December 2016 was qualified in respect of the inability of the Trust to provide the State Lease of the Lancron Naval Base of the Defence Department valued at K46,628,175 recorded under investment properties.

I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or existence of the opening balance or comparatives as reported in the financial statements due to non-provision of requisite documents. Any adjustments that are found to be necessary on the opening balance of the investment property would have a consequential effect on the profit and loss for the year ended 31 December 2017 and the comparative profit and loss account presented and the respective statement of financial position and statement of cash flows.

As at the date of this audit report, I was not provided with the State Lease for this property. Therefore, I was unable to obtain sufficient appropriate audit evidence to determine the fair value of this asset reported at K46,628,175 in *Note 11* and included in the statement of financial position as at 31 December 2017.

Transfer of Lae Port Project (LPP)

The Lae Port Project (LPP) was completed at a total cost of K714,419,665 and transferred to PNG Ports Corporation Limited (PPCL) in 2015. Included in the total project costs was the GoPNG component recorded in the books of the Trust at K223,527,155 as disclosed in *Note 14(b), Projects Under Construction* of the financial statements as at 31 December 2017.

I further noted that the General Business Trust under *Note 14(a), Unquoted Equity Securities* included investment value in PNG Ports Corporation Limited at K585,000,000 which was carried at valuation. In the valuation of the investment in PNG Ports Corporation Limited, the future cash flows of LPP was factored. In my view, the amount of investment projects valuing K223,527,155 was duplicated without any explanation.

As a result, total Investments value of K5,160,523,296 reported in the Statement of Financial Position of the Trust had been overstated by K223,527,155 as at 31 December 2017.

Valuation of Investment (Shareholding) in Pacific International Hospital

On 26 July 2016, the Board of Kumul Consolidated Holdings approved the transfer of the Company's investment property at a book value of K81 million in exchange for shares in Pacific International Hospital (PIH) without any proper due diligence. The share investment in PIH was then recorded at K9.5 million in the Company's books and statement of financial position as at 31 December 2016. As a result, a loss of K71.6 million was recorded for the financial year ended 31 December 2016.

In 2017, the Company engaged an independent valuer to perform valuation of the investment in PIH. The independent valuer asserted that the investment in PIH valued K41.8 million as at 31 December 2017. This had resulted in a fair value gain of K32.3 million (*K41.8 million less K9.5 million*) recorded for the financial year ended 31 December 2017.

I have engaged an expert valuer for review of the valuation and raised a number of queries to the management regarding appropriateness of the approach undertaken and sufficiency of the data and estimates utilized in the valuation. However, these queries have never been addressed by the Company at the time of this report. As a result, I concluded that the indicative value of the investment in PIH shown in the valuation report and recorded in the books of the Company were not reasonable and may not represent fair value in accordance with *International Financial Reporting Standards (IFRS)* guidelines. Any adjustment found necessary would have a material impact on the statement of financial position and statement of comprehensive income for the year ended.

EMPHASIS OF MATTER

Going Concern

The K800 million loan of the Trust from Bank of South Pacific (BSP) required the submission of an asset sale plan related to the Fairfax property on or before 31 December 2015. The Trust failed to submit the said requirement until the loan matured on 30 June 2018. On 6 July 2018, BSP had approved the extension of maturity of the loan to 30 June 2019 provided that the asset sale plan was submitted on or before 31 December 2018. However, the Trust is yet to submit the required asset sale plan as at the date of this report.

This is in breach of the loan covenant and BSP has the right to demand payment of the loan at any time. Because of the importance of this non-compliance of loan agreement by the Trust, I consider necessary to bring this to your attention."

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 year ended 31 December 2018 had been completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Trust for the year ended 31 December 2019 was 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 2017 was issued on 28 February 2020. The report contained a Qualified Opinion.

“QUALIFIED OPINION

In my Opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph below:

- (a) the financial statements of Kumul Technology Development Corporation Limited for the year ended 31 December 2017:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *Companies Act*, *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.

- (b) proper accounting records have been kept by the Company, as far as it appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Valuation of Investment (Shareholding) in Pacific International Hospital

On 25 July 2016, the Board of Kumul Consolidated Holdings approved the transfer of the Company's investment property at a book value of K81 million in exchange for shares in Pacific International Hospital (PIH) without any proper due diligence. The share investment in PIH was then recorded at K9.5 million in the Company's books and statement of financial position as at 31 December 2016. As a result, a loss of K71.6 million was recorded for the financial year ended 31 December 2016.

In 2017, the Company engaged an independent valuer to perform valuation of the investment in PIH. The independent valuer asserted that the investment in PIH valued K41.8 million as at 31 December 2017. This had resulted in a fair value gain of K32.3 million (*K41.8 million less K9.5 million*) recorded for the financial year ended 31 December 2017.

I have engaged an expert valuer for review of the valuation and raised a number of queries to the management regarding appropriateness of the approach undertaken and sufficiency of the data and estimates utilized in the valuation. However, these queries have never been addressed by the Company at the time of this report. As a result, I conclude that the indicative value of the investment in PIH shown in the valuation report and recorded in the books of the Company does not appear to be reasonable and may not represent fair value in accordance with *International Financial Reporting Standards (IFRS)* guidelines. Any adjustment found necessary would have a material impact on the statement of financial position and statement of comprehensive income for the year ended.

EMPHASIS OF MATTER

Going Concern

As of 31 December 2017, the Company's total current liabilities exceed current assets by K4.9 million. The management of the Company assessed that the Company's ability to continue as a going concern is dependent on the ongoing financial support of its parent entity, the 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 2018 had been completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2019 was in progress.

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 electricity generation.

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 2017 was issued on 28 February 2020. 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 year ended 31 December 2018 had been completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2019 was 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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

19.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the years ended 31 December 2014, 2015 and 2016 were issued on 22 June 2020. The reports contained similar Qualified Opinions, hence, only the 2016 report is reproduced.

“QUALIFIED OPINION

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

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

BASIS FOR QUALIFIED OPINION

Fixed Assets – K2,645,876

I noted that the Institute had not maintained a Fixed Assets Register during the year under review. The assets owned by the Institute had not been tagged for easy identification and recording purposes. I also noted that the Institute had not carried out physical count of fixed assets over the years to ensure that assets have properly been recorded and in existence.

As a result, I was unable to confirm the valuation, existence and accuracy of the fixed assets disclosed in *Note 6* of the financial statements.

Limitation of Scope – K164,683

The Institute did not maintain proper records of payments totalling K164,683 during the period under review. My review of the expenditures during the year revealed that payments totalling K164,683 were missing or not provided for my verification. Consequently, I was unable to perform my audit procedures to determine the validity, completeness and accuracy of the payments totaling K164,683 as reported in the financial statements.”

19.2.2 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 2014, 2015 and 2016 were issued on 22 June 2020. The reports contained similar observations, hence, only the 2016 report is reproduced:

Budget Against Actual

A comparison of the budget figures against the actual expenditure revealed that the Institute had exceeded the budget in its spending. There was a significant increase in spending by K1,894,933 for the year under review for which the audit did not receive any satisfactory explanation from the Institute.

Accounting and Administration Procedural Manual

I noted that the Institute did not maintain a procedural manual for the staff to follow and adopt standardized procedures within the Institute for effective control purposes. In the absence of this manual, I was unable to establish whether the uniform procedures were followed in the accounting, administration and other operational areas. Further, I was unable to establish whether the staff members carry out tasks in accordance with the prescribed procedures and guidelines applicable to the Institute.

Council Meeting Minutes

I was not provided with the Council meeting minutes for the year 2016. As such, I was not able to state whether the important financial, operational and administrative decisions were collectively discussed, agreed to and resolutions passed accordingly.

Bank Reconciliations

My review on the Institute's bank reconciliations revealed that the bank reconciliations were prepared without being reviewed on a timely basis by a responsible officer. I further noted that these bank reconciliations were not signed by the preparer and the reviewer. Due to lack of timely bank reconciliations, cheques totalling K179,791 remained outstanding for more than twelve (12) months and had become stale. Consequently, I was not able to place reliance on the effectiveness of the internal controls maintained by the Institute over the bank reconciliation process.

Expenditure – K175,463

I observed that the Institute made payments totalling K175,463 without obtaining three (3) written quotations from reputable suppliers when making payments for expenditures exceeding K5,000. I further noted that in the absence of three (3) written quotations, the Institute resorted to using statutory declarations to bypass the requirements specified under the *Public Finances (Management) Act 1995 (as amended)*. As a result, I was unable to place reliance on the effectiveness of the internal controls surrounding the procurement of goods and services of the Institute.

19.3 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, 2018 and 2019 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 year ended 31 December 2015 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 for the year ended 31 December 2016 was in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2017, 2018 and 2019 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 2017 was issued on 28 August 2019. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- (a) the financial statements are based on proper accounts and records; and
- (b) the financial statements are in agreement with those accounts and records, and show fairly the affairs of the Authority as at 31 December 2017, and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION

Asset Revaluation Reserve

As at 31 December 2017, asset revaluation reserve was disclosed as K18,979,236. The asset revaluation reserve was recorded as a result of a revaluation exercise conducted in 2011. However, since 2011, the Authority has not maintained a detailed register to reconcile the increment or decrement by individual assets at each financial year. As a result, the Authority would not 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:

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

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

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 2017 was issued on the 28 August 2019. The report contained the following observations:

Lack of Proper Updates and Maintenance of Employment Contracts

During my examination of the Authority's payroll, I noted that staff employment records were not properly maintained and updated on a timely basis. I also noted that total personnel cost for the year was K17,136,771. However, my request for the employment contracts and other supporting employment letters were not made available to me to perform the necessary audit procedures. As a result, I was unable to verify and confirm whether correct rates of basic salary and allowances were applied, calculated and paid in 2017.

I recommend that a 100% review and update of all staff records to be performed and the management responded as follows:

"We have engaged external consultants in 2018. All staff files have been reviewed and payroll records have been updated.

All contract officers' contracts have been renewed in 2018/2019 and that includes taking up appropriate accounting entries for Long Service Leave, Gratuity and Leave Accruals in 2018."

Payment of Labour and Land Mobilisation Costs to Lands Investment Limited

Included in land and building amount of K39,783,921 is an amount of K2,924,899 relating to costs incurred for the construction of the prefabricated houses. As reported in the 2014, 2015 and 2016 audits, the Authority has 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 am unable to ascertain the basis on which the payment was made to Lands Investment Limited.

Late Submission of Financial Statements

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 April for the year ending 31 December preceding, resulting in breaches of *Section 63(1)* and *Section 63(3)* of the *Public Finance (Management) (Amendment) Act 2016*.

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 2018 was in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2019 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 2018 was issued on 14 February 2020. 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 2018 was issued on 14 February 2020. The report contained the following observations:

Accounting System/Software

My review of the Institute's accounts and records for the year ended 31 December 2018 revealed that the Institute had been using the Quicken Accounting Package for past several years. I noted that the transactions from the Quicken cash ledgers were transferred manually to spreadsheets for reporting purposes as the Quicken was programmed to adopt cash basis of accounting. I further noted that the Accpac Accounting System that was purchased some years back was not fully utilized by the Institute. In my view, possibility of errors and mistakes would be minimized, a lot of time can be saved and a better audit trail would be available when this new Accpac Accounting System was fully utilized. This matter was reported to Management in my previous reports as well and the Institute had to implement my recommendations.

Management concurred with my comments and responded that the new Sage Accpac Accounting System is being trialed but put on hold pending implementation of the Integrated Financial Management System (IFMS) by Department of Treasury and Finance. The IFMS was further 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 had carried out a valuation exercise of all of its titled land portions located at various research centers throughout the country and disclosed the revalued amounts in its financial statements. However, I noted the land at Portion 121 at Tring Wewak, East Sepik Province was not included in this revaluation exercise, I recommended the management to do a valuation and to take up the revalued amount in its Fixed Assets Register.

Management noted my recommendation and agreed to carry out revaluation exercise of Portion 121 in early 2020.

22.3 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 2019 for my inspection and audit.

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 report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Secretariat for the year ended 31 December 2018 was issued on 10 February 2020. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- a) the financial statements of the Secretariat 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 Secretariat as at 31 December 2018 and the results of its financial operations for the year then ended.

BASIS FOR QUALIFIED OPINION

Operating and Capital Expenditure – Insufficient Supporting Documents

During my review of expenditures, I noted that operating expenditure amounting to K1,020,376 and capital expenditure of K939,832 were not verified during the audit due to lack of proper supporting documents. As such, I was not able to ascertain the occurrence and authenticity of payments due to scope limitation.”

23.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Secretariat for the year ended 31 December 2018 was issued on 10 February 2020. The report contained the following significant matters:

Internal Control Environment

I have reviewed the overall internal control environment of the Secretariat and noted the following issues in respect of the control environment:

- Internal control mechanisms such as approved accounting manuals, operational guidelines and policies were not sighted at the time of audit;
- Effective implementation and monitoring of the established internal controls especially in procurement were weak and are open to manipulation and override;

- Internal Audit function was not fully utilized to review various processes including assessment and implementation of effective internal controls and anti-fraud measures to provide necessary recommendations for the management; and
- There was no proper accounting system in place to keep proper record of transactions.

The accounts were maintained using both PGAS accounting system and MS excel spreadsheets. In the absence of a proper accounting system, financial information is prone to manipulation.

I highlighted the implications of not having in place a properly defined control environment and recommended that Management take appropriate actions to ensure that the control environment need to be tightened up and adequate systems were in place to ensure sound operations of the Secretariat. The Management responded to my observation as follows:

“The National AIDS Council Secretariat adopts the Public Finances Management Act (PFMA) when dealing with procurements of goods and services, PFMA clearly specifies as how you go about in expending public funds. Hence, it cannot in anyway create loop holes for abuse of public funds;

We admit that the Internal Audit function was not fully utilized as the internal auditor was very sick and could not perform his duties more often. The internal auditor resigned and the internal audit position is currently vacant. The position will be advertised in the near future; and

We have also identified the issue with the accounting system and budgeted funds to purchase an accounting software that is suitable for our organization.”

Fixed Assets

Despite my prior years’ recommendations, I still noted weaknesses over the control of assets owned and in the custody of the Secretariat. The following issues were noted:

- The Secretariat did not have an approved fixed assets policy in place for assets owned and controlled by the Secretariat;
- The Fixed Assets Register (FAR) was not properly maintained in 2018. Assets dating back over a decade still remained in the FAR although they had reached their useful lives and were due for disposal. I further noted instances where assets maintained in the Register did not have either purchase date or purchase price while all assets were not tagged with customized NACS codes and captured in the FAR to enable me to locate and verify the existence of the assets;
- The Secretariat had not conducted a regular stock-take on its fixed assets for a number of years including 2018;
- Physical inspections conducted on vehicles owned by the Secretariat revealed that the vehicles were not registered with “Z” plates, breaching the *Motor Traffic Regulation 1967 Chapter 243 section 19A(e)(i)*; and

- The Secretariat did not have in place an approved mobile phone policy to administer the purchase and usage of mobile phones.

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

Payment of Vehicle allowances to Officers Provided with Official Vehicles

My review of the personnel and motor vehicle benefits of the Secretariat revealed breakdowns and malpractices. We noted that five (5) senior officers of the Secretariat were each provided vehicles for twenty-four (24) hours use with fuel. In addition, these officers were also paid vehicle allowances. This practice is a form of double dipping of benefits by the employees and should be discontinued.

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

“We take note of the audit observation and inform you that going forward we will give an option to concerned officers whether to forgo their vehicle allowance and be given a vehicle or vice versa.”

Long Over Due Staff Advances

My review of the staff advance balance of K33,622 in *Note 7* of the financial statements revealed that this balance remained outstanding with no movements for over two (2) years. As such, I could not confirm the collectability of these advances within the stipulated period.

I recommended the Secretariat to come up with options to collect those debts; otherwise consider writing the balance off after the Secretariat’s approval.

The Secretariat responded that the long outstanding staff advances of K33,622 were related to terminated officers; hence NACS will make a submission to the Board for their consideration for write-off.

Maintenance of Staff Personnel Files

My review of the personnel emoluments revealed that personnel files were not properly maintained. I noted that records such as salary and allowances tax declaration forms, birth certificates, salary history cards, leave records and other correspondences relating to salary variations were not properly maintained. In addition, important documents like the CV, offer and acceptance letters, supporting documents such as advertised positions, an applications register for all the applicants, selection criteria, and interview and evaluation forms for candidates and screening for criminal records such as police clearance forms were not on file for my verification.

Further, most of the contract officers' contracts were not current or were not located in their personnel files during my review.

Due to the above, I was not able to gain comfort and conclude on the effectiveness and adequacy of controls surrounding the Human Resources Management of the NACS. I recommended the Secretariat to ensure that its employees' personal files are properly maintained and important documents related to each officer should be filed in their personnel files and be readily available for management and audit purposes.

Other Internal Control Weaknesses

Other internal control weaknesses noted during my audit were:

- the Secretariat did not maintain a complete Travel Acquittal Register for travel related expenses totaling K1,620,661. I was unable to ascertain whether all travel expenses incurred and paid during the year were accurately recorded and timely acquitted in accordance with *Part 20, paragraphs 11.2 and 12.10* of the *Financial Management Manual*;
- encashable cheques were issued without cash collection registers and/or per diem sheets being signed off and dated by respective recipients. I further noted, on numerous occasions, that cash disbursements for awareness programs had no proper acquittals. I brought this to the attention of the Secretariat by emphasizing that encashable cheques are not an acceptable business practice and promotes fraudulent activity, abuse of resources and corruption; and
- I was not able to ascertain the validity of K48,100 paid to consultants engaged by the Secretariat as there were no progressive/periodic reports attached with the payment vouchers as a basis for payments made. In addition, I noted on numerous occasions that Grants totaling K131,659 allocated to individual recipients as well as organizations for awareness programs were not substantiated and acquitted to justify that the funds used were for the intended purpose and had tangible outcomes.

I drew management's attention to these weaknesses and was advised that the Secretariat has taken note and appropriate actions will be taken to address these issues.

23.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Secretariat for the year ended 31 December 2019 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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

24.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Corporation's financial statements for the year ended 31 December 2015 was issued on 28 August 2019. The report contained a Disclaimer of Opinion.

“DISCLAIMER OF OPINION

In my opinion, because of the limitations of scope of my work and other matters referred to in the Basis for Disclaimer of Opinion paragraphs, and the effect of such adjustments, if any, as might have been determined to be necessary had the limitations and other matters not existed, I am unable to and do not express an opinion on the financial statements of the National Broadcasting Corporation for the year ended 31 December 2015.

BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope due to Disclaimer of Opinion on the Previous Years’ Financial Statements

The previous year’s audit report (2014) was issued with a full disclaimer of opinion. The reason for the disclaimer of opinion was the limitation of scope arising from an inability to obtain accounting records and proper explanations for the differences that were recorded between the 2014 general ledger balances and the 2014 financial statements. Similar qualifications had been made for the previous years’ financial statements including 2013. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have a consequential effect on the financial statements of the Corporation for the year ended 31 December 2015.

Fixed Assets – K204,464,822

During my review of the fixed assets of the Corporation, I noted the following inefficiencies:

- The Corporation did not maintain an updated Fixed Assets Register (FAR) to properly record, account and capture fixed assets additions, disposals and transfers of assets between Provincial Radio Stations;
- The assets purchased during the year were expensed off instead of being capitalized and depreciated over useful life, thus overstating and understating the expense and fixed asset accounts respectively;
- The Corporation did not calculate depreciation of its assets during the year which resulted in significant misstatement in the Profit and Loss Statement;
- A significant variance of K452,122,853 was noted between FAR (K565,562,384) and general ledger (K113,439,531) relating to fixed assets;
- A material variance of K3,607,390 was noted between FAR (K6,535,959) and general ledger (K10,143,348) relating to depreciation expense;
- There were no accumulated depreciation accounts for each type of assets in the general ledger; and
- I was not able to confirm physical existence of the Corporation's assets that are located throughout the 20 provinces to verify the balances to the general ledger.

Due to the above issues, I was unable to place any reliance on the effectiveness of the internal controls surrounding the management of the fixed assets of the Corporation. Consequently, I am unable to conclude on the valuation, correctness and existence of the fixed assets at year end.

Trade and Other Debtors

In *Note 8* to the financial statements, the Corporation reported balances of K1,923,306 and K1,245,202 for trade and other debtors respectively. However, these balances did not agree to the balances on various supporting schedules provided to me. In the absence of sufficient evidence of trade and other debtors' balances, I am unable to verify the accuracy, completeness and validity of the trade and other debtors' balances reported at the year end.

Related Party-Government Debtors & Creditors

As at 31 December 2015, the Government debtors and creditors balances were K1,246,005 and K1,929,944 respectively which nets off to the value of K683,939 as noted in *Note 9* to the financial statements. However, the following discrepancies were noted:

- No aged debtors listing was maintained for the government's debtors account to identify clearly the balances, their ages and control balances;
- No reconciliation was done to ensure each individual government's debtors were paid and which were outstanding during the year;
- The government's creditors balance of K915,762 relates to 2012 and prior years' unrepresented cheques, which were yet to be identified and cleared; and
- The government's creditors balance was maintained manually on an excel spreadsheet and carried over from year to year without any review or monthly reconciliations performed to clear this significant balance.

As a result, I was unable to conclude on the validity, accuracy and completeness of related party-government debtors and creditors balances stated in the financial statements as at 31 December 2015.

Trade Creditor, Other Creditors and Accruals – K2,762,238

Note 10 to the financial statements shows the following:

- Trade payables - K3,533,809;
- Other payables and accruals - K1,871,450; and
- GST payables - K1,099,879.

During my review, the Corporation did not provide any reconciliations or appropriate documentary evidence to support the amounts. In addition, I was unable to perform the cut-off procedures test of trade creditors and accrual balances to ascertain whether all credits and accruals transactions were recorded in the correct accounting period or that accruals were fairly recorded and that the method of accounting for accruals was consistently applied. As a result, I was not able to confirm the completeness, existence and accuracy of the creditors' and accruals' balances at the balance date.

Employee Provisions – K4,051,263

The Corporation reported balances of K1,460,513 and K2,589,749 for provisions for recreational leave and furlough leave respectively. The two balances were brought forward from prior year without accounting for any movement during the year. The current year's employee provisions were manually calculated by the Human Resource division and passed to Finance for posting into the general ledger only at the year-end but contained numerous mistakes and errors resulting in incorrect balances. Hence, these were not posted into the general ledger for current year's accounting purpose. In the absence of accounting for employee provisions for the year, I was unable to ascertain the completeness, accuracy and validity of the employee provision balances at the year end.

Issued Capital – K25,503,697

As at 31 December 2015, the Issued Share Capital balance was K25,503,697. I was not provided with any records and reconciliations to verify the details and accuracy of the share capital balance. In the absence of sufficient evidence, I was unable to verify the accuracy, completeness and validity of the Issued Capital balance at the year end.

Asset Revaluation Reserve – K187,317,339

The asset revaluation reserve balance in the financial statements shows a significant balance of K187,317,339 while the general ledger balance only reflected K22,910,269. A fair value balance of K164,407,070 was put through and an unexplained adjusting balance of K944,641 was taken up in the financial statements to balance the Statement of Changes in Equity to the assets and liabilities balances. I was not provided with any records and reconciliations to verify the details and accuracy of the adjustments including the movements in the Asset Revaluation Reserve balance. In the absence of sufficient evidence, I was unable to verify the accuracy, completeness and validity of the Revaluation Reserve balance at the year end.”

24.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act* on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2015 was issued on 28 August 2019. The report contained the following observations:

Missing Payment Vouchers (Source Documents)

During my review, I was not provided with payment vouchers totaling K1,056,627 for my verification. Source documents are the main information in which the financial data is being derived from. In the absence of this vital information, I was unable to satisfy myself as to the accuracy and completeness of the financial information presented in the financial statements. In addition, the Corporation has not fully complied with *Section 62(1)* of the *Public Finances (Management) Act 1995* that requires public bodies to keep proper accounts and records of its affairs.

Centralized Monitoring System – IT Call Centre

My review on the Information Technology (IT) environment revealed that the Corporation does not have a call center for default reporting and a network monitoring system to allow for centralized monitoring of systems. As a result, the following issues were noted:

- Key delays in achieving troubleshooting and/or resolving issues which can lead to down time effectively affecting delivery of service to customers which comes with a monetary cost and can also affect customer relationship; and
- Current system does not provide extended resource monitoring and management capabilities in the form of dashboards, views, reports, capacity planning, alerts and recommendations.

I recommended management to consider investing in running a feasibility study and if the benefits are exceptional, consideration may need to be given on how best to move this forward and management has responded as follows:

“The recommendation is duly noted. The IT areas are a developing area that needs more funding and efforts to improve. The management had realised that and acquired new server and appliances in 2018.”

Information Technology (IT) Policy

I noted that the Corporation does not have in place a fully documented and working IT Policy and as a result, the following issues were noted:

- The Corporation does not have policies to address the requirement to protect information from disclosure, unauthorised access, loss, corruption and interference;
- Key information may be disclosed or made available to unauthorised individuals, entities or processes;
- The information may be destroyed in an unauthorised manner and accuracy and consistency may not be preserved regardless of changes; and
- The Corporation is not protected against any liability if any of the above is being violated.

I recommended management to put a policy in place which will protect the Corporation from any loss and/or liability that may arise and management have responded as follows:

“The IT manager and his team must develop policies and procedures to lift the standard of IT environment. The recommendations are fully noted.”

Cash at Bank and Bank Reconciliations

I was not provided with the bank reconciliations for the Corporation’s main bank account including most of the minor cash balances. In addition, I noted that two bank accounts namely National Project TV and National Karai Commercial accounts cash balances per the audited trail balance differs from the general ledger. The trial balance amount of K67,840 for the National Project TV account differs from the general ledger balance of K65,540 which gives a variance of K2,300 whilst the trial balance amount of K209,948 for National Karai Commercial account differs from general ledger balance of K191,773, resulting in a variance of K18,175. Though the balances were immaterial, the existence of such differences raises issues in regards to the general ledger system and the trial balance. Consequently, I was unable to place any reliance on the effectiveness of the internal controls surrounding the cash management and concluded that serious weaknesses existed.

Transport and Fuel Management

My review of the Corporation’s transport and fuel management system revealed gross misuse and abuse of the fuel management system where the fuel costs have been increasing rapidly until picked up by management and attended to. I noted that an internal investigation has already been carried out which confirmed misuse and abuse of the fuel vouchers in collaboration with respective fuel service stations being associated with. I recommended management to:

- continue with existing arrangement in place which has allowed for the misuse to be stopped;
- consider reviewing other key areas or business functions within the organization that carry the same risk and consider taking the same action; and
- critically have a look at the “Financial Procedures Manual” recently established and seriously consider uplifting any current functions in line with all policies established by this manual.

And management have responded as follows:

“The management agrees with the recommendation and proper steps were taken in 2017 and beyond. A transparent process is now followed.”

Internal Controls

I was unable to confirm whether internal controls are appropriately designed, correctly implemented and operating effectively as all the documents to verify and confirm the controls regarding revenue and debtor management cycle, operating expenses cycle and financial accounting cycle were not provided to me. As such, I was unable to verify and confirm on whether all established internal controls are appropriately designed, correctly implemented and whether they are operating effectively.

General Ledger Integrity – General Ledger Reconciliations

The Corporation has not performed any monthly reconciliation of its entire general ledger accounts for better internal control purposes. These general ledger accounts were not reconciled and independently reviewed at month end resulting in unresolved balances carried forward from year to year. In addition, specific contributing issues noted include changes to some key finance positions, no independent review of accounting entries or journals prior to posting into the accounting system (Attaché), lack of understanding of accounting issues, creation of new general ledger without obtaining proper approval and an unclear financial reporting structure. Consequently, I was unable to place any reliance on the effectiveness of the controls surrounding the general ledger accounts.

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

“The management have noted this and appropriate actions were taken in mid-2016 and beyond. The training of staff with the Attaché software and the CPA training with CPA PNG also started in 2017 and beyond.”

Missing Records and Files

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

I recommended that the departing finance staff must go through a proper hand-over take-over in order to update new staffs with status of their accounting work, records and other information within their section before leaving. In addition, the Corporation to implement a strict and effective policy and system of filing and records management since it is important when there is high staff turnover.

Management responded as follows:

“The management noted this and proper hand-over take-over must be perform to have proper flow of info and data.”

Evidence of Poor Accounting Function

I noted certain general ledger balances relating to assets and provisions were not updated or adjusted to reflect the correct positions of the balances in 2015. The accounts were provision for furlough and annul leaves, trade and other debtors and prepayments. The balances in the general ledger and financial statement are carried forward balances for 2014 without any movements. In addition, some adjustments identified to be posted into the general ledger in order to amend the balances to reflect correct positions were not posted into the general ledger, rendering these balances at year end to be incorrect. Consequently, the final trial balance lacked integrity and shows evidence of weaknesses in the accounting environment. The trial balance contained incorrect balances and did not reflect the true position of the Corporation at year end.

I recommended management to conduct an assessment of the accounting functions and implement improvements to basic accounting functions such as monthly general ledger reconciliations, review of journal entries and posting of entries, etc.

Management had responded to my findings as follows:

“The new management agree with the recommendation and did identify these issues and were addressed in 2017 and beyond.”

Journals and Creation of General Ledger Accounts

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

- Some manual journal entries posted into the general ledger system were not independently reviewed by the senior accounts officers;
- Some manual journal entries posted were not stamped as posted;
- A complete listing of all manual journal entries processed into the attaché system in the 2015 financial year was not provided for my review;
- There were many new general ledger accounts created in 2015 but were not supported by approval from the management team including the Managing Director; and
- Some new general ledgers created have similar functions to those that already existed.

The key controls to detect fraud and errors in financial reporting system are the segregation of duties, and the independent review of manual journals posted in the ledger system including appropriate approvals for creation of new general ledger accounts in the attaché system. Without such controls, the general ledger and the resulting financial reports produced may contain incorrect and materially misstated balances.

I recommended the following to the management:

- The manual journal entries prepared by any division including payroll be reviewed independently and approved for postings by senior accounts officers;
- The senior accounts officers should collate all journals and maintain a central filing in order of their batch numbers and posting dates;
- All journal entries posted should be clearly marked as posted; and
- Any new general ledger accounts created in the general ledger system should be properly approved by the designated senior management member appointed by the Managing Director and copies of such approval issued must be properly kept.

Management had responded as follows:

“The new management agree with the recommendation and did identify these issues and were addressed in 2017 and beyond.”

Trade Debtors

The trade debtor's account captures the Corporation's internal revenue generated from on-air and Kundu 2 advertising including other operating income from co-sitting and rentals from leasing of its properties. At year end, trade debtors balance was K1,923,306 and a provision of K543,283 (43%) was provided against this debt. However, I noted following weaknesses:

- I was unable to identify the ages of the trade debtor balance;
- No monthly reconciliations have been done to trade debtors balances to identify those that paid up and those that did not;
- There is a likelihood of some debtors may be paid but are not cleared in their accounts and may overstate the debtors account;
- No proper procedures in place, particularly in respect of debt recovery; and
- Failure to follow up on debts which have been overdue beyond the normal credit terms may result in debts becoming bad unnecessarily and being written off subsequently.

Hence, I was unable to determine completeness, existence and accuracy of trade debtor balances at year end.

Trade Creditors and Other Liabilities

During my review of the Corporation's trade creditors and other liabilities, I noted the following:

- The trade creditors sub ledger in the Attaché System was not properly used and hence, the existing balance was not agreeing to the general ledger balance. A manual list containing the unrepresented cheques was also maintained but this also did not tie to the general ledger balance;
- There was no monthly reconciliation performed throughout the year;
- Significant liabilities have not been accrued and due to errors noted in my prior review, I was unable to accurately quantify the balances at year end;
- Payments for goods and services were done on cash basis; and
- Total balance of K248,635 is made up of unrepresented cheques which were carried forward from 2012. To date the balance has not changed. No proper information on the nature and explanation detailing the unrepresented cheques was provided to me.

Hence, I am unable to obtain any comfort on the completeness, existence and accuracy of trade and other creditors balance at year end.

24.3 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 2016 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 Corporation for the year ended 31 December 2017 was in progress.

The Corporation had not submitted its financial statements for the years ended 31 December 2018 and 2019 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 function of the NCD Commission is to:

- control, manage and administer the NCD to ensure its welfare and that of the persons in its jurisdiction.

25.1.3 Subsidiaries of the Commission

The subsidiaries of National Capital District Commission are *National Capital District Botanical Enterprises Limited* and *Port Moresby Nature Park Limited*. Comments in relation to these subsidiaries are contained in paragraphs 25A and 25B 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 2016, 2017 and 2018 were issued on 14 August 2019, 29 June 2020 and 30 June 2020 respectively. The 2016 report was a Disclaimer of Opinion while 2017 and 2018 reports contained similar Qualified Opinions, hence, only the 2018 report is reproduced.

“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 of the Commission for the year ended 31 December 2018:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *Public Finance (Management) (Amendment) Act 2016* and generally accepted accounting practice and statutory requirements in Papua New Guinea;
- (b) proper accounting records have been kept by the Commission, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Revaluation of Lands and Buildings – K121,266,545

I noted that the Commission's lands and buildings reported at K121,266,545 in the financial statements had not been revalued over a number of years. The Commission carried on the book values since the last revaluation performed in 1992. Consequently, the Commission has not complied with *IAS 16 paragraph 34 (Measurement and Recognition)* which requires valuation of property, plant and buildings are done every three or five years. Accordingly, I was unable to determine whether the Commission's properties value as reported in the financial statements as at 31 December 2018 were fairly stated.

Land and Garbage Rates Debtors – K84,802,351

I noted that the data recorded in the TARMIS contains both ratable and non-ratable properties. Although the system oversight was corrected by applying 40% and 60% default rate for land tax and garbage rates respectively, the rates also apply to default customers. In addition, the basis used in deriving 40% and 60% to apply on provision of doubtful debt estimates could not be substantiated. As a result, I was unable to determine the accuracy of land tax and garbage rates debtors balance of K84,802,351 (net of provision) as reported in the financial statements as at 31 December 2018.

Fixed Assets Register (FAR)

My review of the Commission's fixed assets account revealed that details of all other assets except for the lands and buildings were properly maintained in the FAR. However, the Commission did not conduct physical checks on these other assets to ascertain their existence and condition, and to confirm the completeness and accuracy of their total value of K33,653,588 as disclosed in the financial statements. In the absence of physical checks, assets that might be damaged, stolen or obsolete could not be identified by the Commission. Consequently, I could not comment on the condition, existence and ownership of the assets nor was I able to determine the completeness, valuation and accuracy of the amount stated in the financial statements as at 31 December 2018."

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 2016, 2017 and 2018 were issued on 14 August 2019, 29 June 2020 and 30 June 2020 respectively. These reports contained similar observations, hence, only the 2018 observations are reproduced:

Board Approval Limit & Variation Deeds

I noted a number of contracts valued over K500,000 had been approved by the Board. I also noticed variations being done to such contracts. The management perceived that the Commission should be recognized as a Provincial Government and therefore, the Board of the Commission can approve contracts up to K5 million in accordance with *Section 39B* of the *Public Finance (Management) (Amendment) Act 2016*.

However, the Commission has been established by an Act of Parliament hence, does not apply provisions of the Organic Law. As a result, the Commission did not comply with the requirements of *Section 47E(3)* of the *Public Finance (Management) (Amendment) Act 2016*.

Budget Versus Actual Spending

Expenditure incurred during the financial year 2018 was not within the budgetary allocation resulted in overspending. Payroll expenses (salaries and allowances, overtime, gratuity and casual wages) alone exceeded the budget by K3,599,865. As a result, I was not able to conclude on the effectiveness of the budget and whether strict observance on budget policies and monitoring of expenditure were undertaken during the year. I raised this issue and management responded as follows:

“As noted in 2017 management letter, this is a case of under budgeting. Board wanted staff and overall admin cost to be less than 20% of the total budget outlay. We have an organization structure approved by the board and SCMC that require appropriate funding. This was reported back to board which since appointed an independent firm to restructure NCDC management vis-à-vis to the NCDC’s functions. When this restructure is completed, all unwanted staffs in position of functions outsourced will be trimmed down and eventually cut costs.”

Disaster Recovery Plan

I noted that the general controls on information technology (IT) emphasized in my prior years’ audits (2008-2017) 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, etc. I was not given the opportunity to view the documented plan however, informed that data back-ups are done on daily, weekly and monthly basis. As advised, the disaster recovery plan had not been tested to ensure its feasibility. Without a proper disaster recovery plan, the risk of discontinuity of operations increases in the case of unforeseen circumstances. This can endanger continuity of the Commission’s operations. I brought this to the attention of the management and they responded as follows:

“This is a prior year issue re-addressed in 2015, 2016 and 2017. Management agreed and formed a new committee to address this issue. The committee has resolved to adapt the disaster plan by allocating budget for a new server for back-up purposes and quick and complete recovery of data and resumption of normal operations should loss of data occur.”

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

Section 63(1) of the *Public Finance (Management) (Amendment) Act 2016* requires that financial statements of a public body must be furnished to the Minister before 30 April of the subsequent year. However, the audit of the financial statements of the Commission for the year under review was delayed resulting in reports not being issued within time frame stipulated. Consequently, the Commission had breached *Section 63(1) and 63(3)* of the Act.

Internal Controls – Payroll System Controls

Reconciliation of allowances, gratuity and details of staff with fringe benefits for the period under review were not provided by the Human Resource division for my verification. Reconciliation is an important control mechanism. Failure to reconcile staff allowances may provide opportunities for fraudulent activities go undetected. In addition, a report from internal audit confirmed that the Commission does not have in place a payroll policy to manage its overtime and shift allowances. I brought this issue up to the management and management responded as follows:

“Noted, we will review and address this recommendation now.”

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 2019 was in progress.

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.1.3 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, 2018 and 2019 for my inspection and audit, despite numerous reminders.

25B. PORT MORESBY NATURE PARK LIMITED

(A Subsidiary of NCDC)

25B.1 INTRODUCTION

25B.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.

25B.1.2 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.

25B.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.

25B.2 AUDIT OBSERVATIONS

25B.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 2016 was issued on 27 August 2019. The report did not contain any qualification.

25B.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.

The Company had not submitted its financial statements for the year ended 31 December 2019 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 reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the years ended 31 December 2015, 2016 and 2017 were issued on 10 October 2019. The reports contained similar Disclaimer of Opinions, hence, only the 2017 report is reproduced.

“DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for the Disclaimer of Opinion paragraphs below, I have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Commission for the year ended 31 December 2017.

BASIS FOR DISCLAIMER OF OPINION

Internal Control Environment

During my review, 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 Finance (Management) (Amendment) Act 2016*, *General Orders* and other *Financial Procedures and Instructions* to strengthen the internal control system of the Commission. As such, I was unable to rely on the overall internal control system of the Commission during the year under review. Consequently, I was unable to place reliance on the Commission's financial statements for the year ended 31 December 2017.

Limitation of Scope – Cash at Bank – K875

My review on the bank reconciliations of the Commission revealed that the bank reconciliation statements for the Main Operating Account, National Film Institute, National Performing Arts Troupe and Institute of PNG Studies were not provided for my review. Furthermore, I was not provided with the bank confirmation for NCC Operating Account, National Film Institute, National Performing Arts Troupe and Institute of PNG Studies accounts for the year ended 31 December 2017. As a result, I was not provided with all the necessary information for me to carry out my audit procedures. Consequently, I was unable to identify whether proper controls were implemented by the Commission in the bank reconciliation function. I was also unable to 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 statements for the National Film Institute, National Performing Arts Troupe and Institute of PNG Studies were not provided by the Commission for my 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. Consequently, I was not provided with all the necessary information to enable me to carry out my audit procedures to confirm whether proper accounting records have been maintained by the National Film Institute, the National Performing Arts Troupe and Institute of PNG Studies.

Accounting Control System

The Commission did not maintain a cashbook for recording its income and expenditure transactions during the year under review. I further noted that the bank reconciliations were prepared without a proper cashbook. The cashbook should form the basis of account balances presented in the financial statements. Without the cashbook, the balances in the financial statements may not be fairly stated at the year end. Further, due to inadequate manual controls, the financial statements produced from ledgers and without a cashbook 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 – K5,832,834

My review of the fixed assets and capital expenditures of the Commission for the year ended 31 December 2017 revealed that the Commission has 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 undertaken by the Commission to confirm the existence of assets. Since fixed assets of the Commission are susceptible to theft and misuse, the Commission must have appropriate control mechanism in place to safeguard these assets. As a result, I was unable to ascertain the completeness, existence and valuation of the fixed assets totaling K5,832,834 as reported in *Note 2* of the financial statements at the year end.

Limitation of Scope – Salary and Wages – K2,468,180

My review of the Commission's salary and wages expenses revealed that the salary and wages files or reports from the Department of Finance were not maintained and provided for my review. Consequently, I was unable to perform my audit procedures to determine the validity, completeness and accuracy of the salary and wages totaled K2,468,180 as reported in the financial statements.

Limitation of Scope – Other Income – K66,390

During my review of the Commission's Other Income, I noted that the supporting documents such as invoices, receipts and other necessary documents for Other Income were not properly maintained and provided for my review. Consequently, I was unable to perform my audit procedures to determine the validity, completeness and accuracy of the Other Income totaled K66,390 as reported in the financial statements."

26.2.2 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 2015, 2016 and 2017 were issued on 10 October 2019. The reports contained similar observations, hence, only the 2017 report is reproduced.

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) (Amendment) Act 2016*, *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:

"Since this is addressed, we will attempt to draw up one for internal office use"

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 K43,517 for the year under review. Consequently, the Commission had breached the *Public Finance (Management) Act* and the *Financial Management Manual Part 20, paragraphs 11.2 & 12.10* which states that cash advanced to officers on official duty travels must acquit travel advances within 14 and 7 days for international and domestic travels respectively on return from duty travels. In the absence of a Travel Advance Register, the Commission was unable to monitor the acquittals promptly.

Staff Personnel Files

During my review of staff personnel files for both permanent and casual employees, I noted that staff 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 staff personnel files.

Internal Control Weaknesses

Other internal control breakdowns and weaknesses noted during my audit are summarized as follows:

- i. I noted that the Commission's Board Meeting Minutes were not signed by the chairman to confirm the minutes as correct recording of the meetings;

- ii. I noted that payments totaled K45,000 had no proper supporting documents such as cheque copies and invoice copies 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;
- iii. My review of the expenditures during the year revealed that payments totalling K72,362 were missing or not placed on the payment voucher files for my verification; and
- iv. I was not provided with the Acting Director's contract of Employment for my review.

26.3 STATUS OF FINANCIAL STATEMENTS

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

The financial statements of the Commission for the year ended 31 December 2019 had been submitted and arrangements were being made to commence the audit shortly.

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 2018 was issued on 10 October 2019. 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 2018 was issued on 10 October 2019. The report contained the following significant matters:

Fixed Asset Register

During my review of the Fixed Assets Register, I noted that majority of the assets particularly the Furniture & Fittings and Office & Computer Equipment were not allocated with asset identification numbers or codes which are essential for identifying and monitoring movement of individual asset maintained and disposed by the Commission. There were also very old or obsolete assets that the Commission need to identify and dispose upon Board's approval. As a result, I was unable to identify and confirm the existence of the individual assets in the Fixed Assets Register. I drew my observation to the management of the Commission and they responded to my concern as follows:

"We acknowledged the issue and corrective measures are taken by tagging and coding the assets as well as identifying old and obsolete assets to go before the Commissioners to be disposed and taken off the asset register to give a true value of all assets."

Staff Personnel Files

My review of the personnel emoluments revealed that staff personnel files were not properly maintained. I noted that records such as salaries and allowances variation advices, tax declaration forms and appointment letters were not on file for audit verification. The Commission also did not maintain control records such as salary history cards/leave history records (annual leave, long service leaves and sick leave) to assist in the verification of annual leave and long service leave entitlements.

I recommended the management to update all staff personnel files on a regular basis and the management responded as follows:

“The NEFC salaries and personnel files are administered by National Planning Salaries section however the process of updating records is slow. We acknowledge this weakness and will engage competent personnel to update and maintain the personal files.”

Group Tax Liability

My review of the salaries revealed that casual wages were paid out from the Commission’s Operational bank account. Based on the Commission’s fortnightly calculations, a total of K59,249 had been deducted for tax in 2018. This tax liability withheld by the Commission had not been remitted to the Internal Revenue Commission.

I recommended the 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 have now obtained (TIN) Tax File Number from IRC in complying to correct or address this weakness.”

Travel Advances and Acquittal Register

My review of the travel and subsistence expenses amounting to K886,474 revealed that the Commission did not maintain a Travel Advances/Acquittals Register with acquittal files for all duty travels and related expenses. My test also revealed that K286,597 (32%) of total sample tested were not acquitted. As a result, I was unable to determine the propriety and reasonableness of the non-acquitted portion of travel and subsistence expenses as to whether the monies were spent for the intended purpose. The management responded to my observation as follows:

“These are receipts /charges for airfares, hire car receipts for the regional workshops are adding to the issue raised. Also officers have not properly acquitted advances despite ongoing follow ups by the Accounts/Records Management Officer. We acknowledge and agree with the issue raised and will comply in taking corrective measures to rectify this weakness.”

27.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

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 described as follows:
 - 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;
 - 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; and

- 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 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 Authority 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 for the year ended 31 December 2018 was in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2019 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 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 STATUS OF FINANCIAL STATEMENTS

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

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

The Board had not submitted its financial statements for the years ended 31 December 2018 and 2019 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 Trust

The objectives of the Fund Trust are to:

- provide for and apply the income and capital of the Trust 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 Trust

The principal function of the Fund Trust 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 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 Trust for the year ended 31 December 2016 was in progress.

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

The Fund Trust had not submitted its financial statements for the years ended 31 December 2018 and 2019 for my inspection and audit.

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 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. However, audits were being delayed due to certain outstanding issues.

The Corporation had not submitted its financial statements for the years ended 31 December 2018 and 2019 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 is to manage certain National Housing Corporation owned properties for commercial development in Port Moresby, to generate income for the National Housing Corporation and 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. However, the audits were being delayed due to certain outstanding issues.

The Company had not submitted its financial statements for the years ended 31 December 2015, 2016, 2017, 2018 and 2019 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 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2016 was 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 for the year ended 31 December 2017 was 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, while the financial statements for the year ended 31 December 2019 had not been submitted for my inspection and audit.

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 2018 was issued on 29 January 2020. 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 2018 was issued on 29 January 2020. The report contained the following matters:

Trade Debtors – K21,450,406

My review of the Authority's trade debtors of K21,450,406 at 31 December 2018 revealed that a large number of debtors amounting to K4,317,517 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 as follows:

“The Management has developed a debt management policy to address the debts that are falling behind the due dates for collection and allow provision for doubtful debts. One of the outcomes of the policy is to enforce the relevant legislation on detaining vessel for non-payment of levies. The Management is in the process of creating an enforcement unit 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 as follows:

“The Management acknowledges this and confirmed NMSA conducted stock take and verification exercise on all its fixed assets in 2018. The Management has submitted the listing of the Board's approved disposals of old or obsolete assets. However, systemising the Fixed Assets Register and allocation of tags and codes for each asset was hampered by the implementation of the PMMRA 2017 and Forex issues.

The Management has resubmitted payments for the payment of Fixed Assets Management Module and we anticipate to systemise the registry before the end of 2020.”

Purchase of Ministerial APEC Vehicles

During my review, I noted that the Authority purchased two executive support vehicles for the Ministry of Transport and Infrastructure totaling K410,585. The vehicles had been disclosed in the Fixed Assets Register of the Authority, however, I was unable to verify the existence and legal ownership of the vehicles as I was not provided vehicle registration details and had no access for physical inspection. As a result, I was unable to verify the existence and legal ownership of the two (2) vehicles. I queried the management and they responded to my query as follows:

“The Management has acknowledged this and confirmed that two vehicles purchased were part of NMSA’s contribution to the APEC Summit approved by Board. We have enquired with Department of Transport and were advised vehicles are with APEC Committee. The Management has written to APEC committee for the vehicles to be returned to NMSA for Board’s deliberation.”

Staff Salary History Cards

During my review of the personnel 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 personnel 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 approved rate of salaries and allowances and the leave records for the officers from their personnel files.

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

Management responded to my concern as follows:

“The Management acknowledged that and will address this issue in 2019. Delays were attributed to the termination of the HR Manager which affected the HR Department’s functions.”

32.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had submitted its financial statements for the year ended 31 December 2019 and arrangements were being made to commence the audit shortly.

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 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Museum had submitted its financial statements for the year ended 31 December 2019 and arrangements were being made to commence the audit shortly.

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 was completed on 12 September 2018. The management provided responses to the management letter on 6 December 2019, however the amended financial statements had not been provided by the Institute to enable me to issue the report.

The Institute had not submitted its financial statements for the years ended 31 December 2018 and 2019 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 of 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 report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2018 was issued on 19 March 2020. The report did not contain any qualification.

35.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2018 was issued on 19 March 2020. The report contained the following observations:

Accounting and Operational Procedures Manuals

I observed that the accounting and operational procedures manual was not finalized and approved for use by the management of the Authority. Such internal control mechanisms and policies should be formally established, well documented and communicated to all levels and functions of the Authority to be used by all personnel in their routine operational activities.

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 or sections. This was a recurring issue that the management had to address.

Management responded as follows:

“Most functions of the Authority have well documented policies and procedures for routine operational activities. Update to the draft financial & accounting policies and procedures manual is subject to institutional reforms that are currently in progress. We are also aware that complete reliance on a financial manual in the changing world is old fashioned or outdated. With advances in technology, many resources for learning are available on the internet that staffs are able to source online to help complete the routine tasks.”

Bank Reconciliations

Part 4, Division I, paragraph 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 both the Operating and Road Fund 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 management of cash and the bank reconciliation process.

Staff Rental Bond Fees - K537,594

Rental Bond fees paid to landlords for staff accommodation was disclosed as K537,594 at 31 December 2018. My review revealed that on several instances, the Authority did not recoup amounts paid as bond fees after officers relocated to new premises. I was unable to confirm whether the Authority had maintained proper controls and monitoring systems to track bond fees paid and refundable. This issue was also raised in my 2017 audit report.

I recommended the Authority to recoup bond fees after the officers vacate or relocate to new premises and the management responded as follows:

“Comprehensive review of all rental bond fees was carried out in 2019. We identified many records of expired or recovered bond fees that were still carried forward in the GL since 2011 without updates or adjustments. We cross-checked the records and resolved the differences between expired or refunded bond fees against genuine bond fees for current tenancy agreements in place. Total rental bond fee balance in the GL account was adjusted to reflect current bond fees only and cleared the amounts relating to expired & recovered amounts to expense. Preventive measures had been put in place to track bond fees activity, which includes expiring all bonds totally by offsetting against final month’s rental when the leases are terminated. When notices to terminate leases are issued, staffs have been advised to remain in those properties to fully utilise those bonds therefore stop the need to recover bond fees.”

Staff Debtors – K58,935

My review of the staff debtors revealed that the balance disclosed was carried forward from prior year. I further observed that the Authority did not maintain a proper Advances Register in 2018 and that there was no approved staff and salary Advance Policy in place to govern matters relating to the approval, payments, recovery and general administration of advances made to staff. Consequently, I was unable to confirm the accuracy and correctness of the balance disclosed as K58,935 at year end and further comment on the effectiveness of controls surrounding staff advances.

Management responded as follows:

“The account represents residual balances for staff advances carried forward from 2013, some of which were deducted from payroll but records were not updated including the GL. Some amounts cannot be recouped from staff that left the Authority. The account balance of K58,935 was cleared out to expense in 2019 as amounts have been outstanding (aging) for too long and full recovery was very remote. Staff advances ceased in 2013 and matter closed.”

Fuel Levies Receivable - K12,943,909

My review of the fuel levies receivable account revealed that an amount of K5,859,509 relating to expected fuel levy for December 2017 remained outstanding for more than a year. Further, I was not able to comment on the collectability as levy receivables are categorized as current assets and are expected to be converted to cash within one year (12 months). According to the *Generally Accepted Accounting Principles (GAAP)*, the treatment of fuel levies receivable account as K5,859,509 at balance date did not satisfy the definition of current assets.

Management responded as follows:

“The account balance of K5,859,509 was for estimated fuel levies recorded for some months in 2017 and carried forward in the GL as receivables for 3 years. Adjustments were not made after taking up the actual receipts to bank account and the GL. Because the account balance represents estimated revenue only and non-value, accounting for it without source records & workings or formulae was not prudent.

We have verified the fuel levy receipts for 2018-2019 period and accounted for it accurately to isolate the aging receivables and confirmed as worthless. We have cleared the aging account balance in 2019 to correct the treatment & keep proper accounts receivable record. We have stopped estimating fuel levy in 2019 to minimise similar issues arising in the future.”

Outstanding Payroll Liability – K11,318,414

The Department of Finance pays for the salaries and allowances through Alesco (Government) Payroll for employees of the Authority based on the condition that the amounts paid would be refunded. My review revealed 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 2011-2017 audits for the settlement of the liability were not implemented by management. As a result, amount totalling K11,318,414 outstanding as at 31 December 2018 reflected a liability which I was unable to establish whether settlement would be made in the foreseeable future.

I was not able to conclude whether the amount would have any impact on the overall liquidity position of the Authority.

Management responded to my concern as follows:

“NRA responses to 2017 audit stands. We clarify that the Department of Finance (DoF) pays salaries and allowances for only 13 employees of the Authority through the Alesco Payroll. NRA extracts the amounts from the Alesco Payroll report and captures in the GL for record purposes only.

There were no written/ documented agreements in place for the amounts paid to the NRA staff to be refunded to DoF. The DoF pays salaries for most Departments and Central Agencies through its annual budget. Obviously, it will be the responsibility of DoF to keep proper records and account for such expenditures, and report to Parliament regularly.

NRA may treat these amounts as non-value transactions because it does not budget for (due to lack of funding) and pay for this expenditure. In the absence of a written agreement for refund, there is no true obligation that by paying all at once or failing to pay when due may cause a liquidity problem. NRA may opt to cease recording of the amounts in its books and clear the amounts currently held to expense as a way forward to correct the misunderstanding.”

Fixed Assets Register

My review of the fixed assets of the Authority revealed that the Fixed Assets Register (FAR) was not properly maintained and updated. I also noted that the assets were not labelled/tagged with unique identification numbers/codes to enable me to physically verify during the audit. Consequently, I was unable to establish the existence and location of assets listed in the Fixed Assets Register and place reliance on the effectiveness of internal controls surrounding the fixed assets of the Authority.

Management responded that adjustments were made to the FAR which would be reflected in the subsequent year.

Incorrect Tax Administration

My review of the personnel emoluments revealed that certain senior officers were provided with accommodation and vehicles for 24 hours use with fuel. However, the correct prescribed rates for tax purposes were not included in the calculation of fortnightly salary and wages tax. The Authority had failed to administer tax correctly for concerned officers and thus breach the provisions in the *Income Tax Act 1959*.

Management noted my concern and advised that a review will be done to address this issue.

Staff Rental Accommodation – K1,070,414

My review of the Staff Rental Accommodation revealed certain instances where rentals paid to personal companies or companies owned by spouses and related parties of the Authority’s Staff. Contract officers are deemed to be evading tax despite my recommendations to abstain from this practice in my prior year audits. I further noted that the landlords were the spouses of the contract officers who registered their companies with IPA in the pretext of leasing their properties to NRA contract staffs. The above practice is deemed improper where proper procedures were circumvented to obtain personal gain by officers of the Authority. As per the *Income Tax Act 1959*, this practice may be considered as tax evasion.

I recommended the management to immediately cease this practice and they responded as follows:

“All leases with relevant landlords are usually prepared by the legal team, who conducts company searches for proper checks before informing the management on the outcome. Part of the check is to ensure that a company is properly registered and complies with the Companies Act 1997. This includes ensuring that section 16 of the Act is duly noted.

We are fully aware that if the rental payments are made directly to a person, salary/wages tax will definitely apply, but all accommodation rentals were paid in accordance with lease agreements held with relevant landlords or property managing companies. We will review the matter and discuss with each officer concerned to look at other avenues to secure their accommodation either through real estate agents or other parties.”

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 2019 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 for the year ended 31 December 2017 had been completed and audit report was under preparation.

The Council had not submitted its financial statements for the years ended 31 December 2018 and 2019 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 its financial statements for the years ended 31 December 2017, 2018 and 2019 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 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 October 2019. The report contained a Disclaimer of Opinion.

“DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for the Disclaimer of Opinion paragraphs below, I have not been able to obtain sufficient 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 2017.

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 2017, I noted that the Authority’s overall internal control environment was very weak. The Authority was operating without a council to provide corporate governance. The internal control processes and procedures were not implemented in the Corporate Services Division. I also noted lack of segregation of duties within the Payroll and Human Resource function of the Authority and no procedures were followed in handling Director General’s petty cash. The staff employed by the Authority both permanent and casual lacked necessary skills and qualifications to undertake the accounting, finance and other related tasks allocated to them.

I further noted that they were not familiar with the *Public Finance (Management) (Amendment) Act 2016*, *General Orders* and other *Financial Manuals 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 2017.

Cash at Bank – K101,791

During my review of the Authority’s bank reconciliations, I noted that bank reconciliations were not prepared, checked and approved by senior finance officers of the Authority during the year under review. I further noted that these bank reconciliations were not correctly prepared. Furthermore, I noted significant errors between cash book and bank reconciliations for the year under review and unrepresented cheques totaled K51,711 which remained outstanding since 2012 were never investigated and adjusted in the account.

Consequently, I was unable to rely on the controls implemented by the Authority in the bank reconciliations function as well as verify and confirm the accuracy and completeness of the bank balance disclosed at the year end.

Fixed Assets – K2,092,116

My review of the Fixed Assets Register (FAR) of the Authority for the year ended 31 December 2017 revealed that the Authority did not maintain a complete Fixed Assets Register to record details of all fixed assets amounting to K2,092,116. I noted that the assets lacked proper labelling or tagging for identification purposes. There was also no physical stock take undertaken by the Authority to confirm the existence of assets. The 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 2017.”

38.2.2 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 October 2019. The report contained the following matters:

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 Finance (Management) (Amendment) Act 2016*, *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:

“The Finance and Administration Branch has a draft copy of the Governance and Finance Policy and Accounting Procedures in place, this document is now before the Senior Management Team for their comments before a final draft is compiled and ready for use in 2019.”

Non Maintenance of Travel Advances Acquittal Register

The Authority 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 K166,303 during the year under review.

Consequently, the Authority breached the *Public Finance (Management) (Amendment) Act 2016* 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 Authority was unable to monitor the acquittals promptly.

Internal Control Weaknesses

Other internal control weaknesses noted during the audit are summarized as follows:

- i. I noted that petty cash payments totaled K71,004 for various expenses had no proper acquittals attached to determine or confirm if the funds had been fully utilized for the intended purposes;
- ii. I observed on a number of instances that the Authority made payments without obtaining three (3) written quotations from reputable suppliers when making payments for expenditures exceeding K5,000 which totaled K385,541. I further noted that some payments were executed on quotations and not on the basis of official supplier's invoice;
- iii. I noted on a number of instances that some payments made by the Authority 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. My review on pay cash payments made to paymaster totaled K43,897 for various expenses had no proper acquittals attached to determine or confirm if the funds have been utilized for the intended purposes;
- v. I noted that some contingency payments were made by the Authority to the officers in addition to travelling allowances they received when on official duty travels. This practice amounts to double dipping as the *General Orders* had no provision for contingency allowances;
- vi. My review on casual staff salaries and wages revealed that the Authority did not remit the salaries and wages taxes to Internal Revenue Commission and consequently breached the *Income Tax Act, 1959 (as amended)*;
- vii. The Authority's staff personal files were not updated with birth certificates or statutory declarations to verify the legitimacy of their dependents. Further, there were segregation of duties noted in payroll section;
- viii. During my review, I noted that consultancy payments totaling K117,750 had no valid or proper service or consultancy agreements drawn up to engage them during the year under review; and

- ix. My review of the expenditures during the year revealed that payments totaling K25,173 were missing or not placed in the payment voucher files for my verification.

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

38.3 STATUS OF FINANCIAL STATEMENTS

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

The Authority had not submitted its financial statements for the year ended 31 December 2019 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 Function 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 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 Commissioner for the year ended 31 December 2018 had been completed and management responses were being awaited to finalise the audit reports.

The Commissioner had not submitted its financial statements for the year ended 31 December 2019 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 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 2012 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 Corporation for the years ended 31 December 2013 and 2014 were in progress.

The Corporation had not submitted its financial statements for the years ended 31 December 2015, 2016, 2017, 2018 and 2019 for my inspection and audit.

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 reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Commission for the years ended 31 December 2017 and 2018 were issued on 27 August 2019 and 18 February 2020 respectively. The reports contained similar Qualified Opinions, hence, only the 2018 report is reproduced:

“QUALIFIED OPINION

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

- (a) the financial statements of the Commission 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 2018 and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION

Cash at Bank Balance – K6,914,255

My examination of the Commission's Bank accounts and their related records revealed the following:

- A material variance of K2,421,526 was noted between the Main Operating Account Cash at Bank General Ledger balance of K2,556,922 in the accounting system (IFMS) and the balance of K135,396 disclosed in *Note 5*. In addition, I was not able to determine how and from where the balance of K135,396 disclosed at the year-end was derived;
- Manual payments (payments outside of IFMS) made out of the Main Operating Account totalling K1,475,381 incurred in January were not posted into IFMS. As a result, the Cash at Bank General Ledger balance in IFMS was overstated by K1,475,381; and
- An unreconciled difference of K129,300 was noted between the Statement of Receipts and Payments year-end cash balance of K6,784,955 and the cash at bank amount disclosed in *Note 5* at K6,914,255.

As a result of the above, I was unable to conclude on the accuracy and correctness of the cash balance reported in the Statement of Cash Receipts and Payments as at 31 December 2018."

41.2.2 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 2017 and 2018 were issued on 27 August 2019 and 18 February 2020 respectively. The reports contained similar significant matters, hence, only the 2018 report is reproduced:

Bank Reconciliations

Despite my prior years' recommendations, I still noted that the Commission did not perform any bank reconciliations for the Main Operating Account during the year under review. In the absence of monthly bank reconciliations, I could not rely on the effectiveness of the internal controls surrounding the cash management process of the Commission.

I brought this to the attention of the management and recommended the Commission to employ qualified and competent personnel or provide in-house training to existing staff to fill the competency gap and address this vital issue.

The Commission acknowledged and accepted my recommendation and responded that attempts were already made to employ competent personnel. In the meantime, the Commission will identify training to address the skills gap for its existing staff.

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 was not properly updated and maintained in 2018. Assets that were due for disposal dating back to 2002 were still captured in the FAR. Moreover, assets purchased between 2014 and 2018 did not contain details of identification or serial numbers to enable me to verify their existence. I further noted that assets that were purchased in bulk had their aggregate balances in the FAR instead of recording the individual items against their corresponding values. Similarly, the Commission has failed to disclose construction costs separately for each institutional house it owns, instead, the balances captured in the FAR disclosed the cumulative construction costs of the institutional houses.

I brought this recurring issue to the attention of the management with reference to the implications of not having in place a complete and updated FAR and further recommended for improvement in this area.

The management responded that it had commenced its consultations with IFMS in 2019 to rollout the Assets Management System Module and existing personnel had been identified to carry out the FAR process pending training from IFMS. The Commission was also looking at other available Assets Management Software if IFMS does not provide the solution.

- **Fixed Assets Policy**

There was no approved fixed assets policy in place for assets owned and controlled by the Commission. I was unable to comment on the procedures and guidelines required for asset capitalization; general information on classification and recording fixed assets; the allocation of assets; asset acquisition and disposal procedures; and the processes involved in replacement of assets when damaged or stolen. In the absence of an approved fixed assets policy, I was unable to conclude whether management has in place an effective internal control system over fixed assets under its custody.

The Commission concurred with my observation and responded as follows:

“The Division responsible will draft the Asset Policy taking into consideration the procedures and guidelines recommended by audit to tighten the controls on Fixed Assets.”

Staff Personnel Files

My examination of the Commission’s staff personnel files revealed that staff salary history ledgers/cards were not properly maintained in their respective personnel files. I reminded the management that inadequate record keeping of staff salary records exposes the Commission to the risk of paying incorrect employee benefits. I also noted that the Commission’s employees did not have updated salary and wages tax declaration (S3) forms and birth certificates of employees’ dependents in their personal files. As a result, I was not able to verify the legitimacy of dependents claimed as required under *Section 5.2.41* of the *OC HR Manual* for leave fares paid including salary and wages tax rebates claimed in 2018.

I recommended the Commission to ensure that personnel files are properly maintained with all required information for management and audit purposes. The Commission responded to my observation as follows:

“Since the upgrade of the Complete Human Resource Information System (CHRIS21) in November 2018, the HR unit commenced updating staff’s records electronically. Today all information on ledger/card is now captured electronically on CHRIS21. HR will also ensure all officers complete the tax form (S3) in the first quarter of each financial year with HR and Logistic Units to liaise with National Identity Office to have officers’ dependents registered and issued with NID Cards and Birth Certificates.”

Leave Fares

My review of leave fares paid out in 2018 revealed that the Commission did not comply with the requirements of the *Ombudsman Commission Human Resource Manual (OCHRM)*. *Section 5.2.46(c)* of the *OCHRM* 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.”* This has been a recurring issue which the management is yet to address.

I recommended the Commission to comply with the requirements of *OCHRM 5.2.46(c)* in the administration and application of leave fares.

The Commission responded that its officers have not been made aware of this requirement and its implications; therefore, the Commission would review its HR Manual to reassess the clause, its implications and reasons whether the 10% should be applied to officers. In the meantime, the Commission will consider the recommendation.

Procurement Process Review

My review of expenditures incurred in 2018 revealed that payment vouchers totalling K117,312 for Capital Expenditures and K297,480 for Operating Expenditures were not supported by proper documents such as:

- Minutes/Memos justifying the basis of payments;
- Invoices to confirm the validity of the payments;
- Three Quotes and/or documented justifications for choosing a particular supplier of goods/services in compliance with the *Financial Management Manual, Part 12, Div. 3, Para 9*; and
- Delivery dockets as evidence that goods have been received.

I was, therefore, unable to determine whether the procurements were transparent and were made in an economically prudent manner. I recommended the Commission to ensure that in the future payment vouchers should be properly filed with necessary supporting documents in accordance with the requirements of *Section 62 (1)* of the *Public Finance (Management) (Amendment) Act 2016*.

41.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

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 report to the Ministers under *Section 8(4)* of the *Audit Act* on the Commission's financial statements for the year ended 31 December 2018 was issued on 27 April 2020. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- (a) the financial statements of PNG Accident Investigation Commission for the year ended 31 December 2018:
 - (i) give a true and fair view of the financial position and the results of its financial performance for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *Public Finance (Management) (Amendment) Act 2016* and other generally accepted accounting practice in Papua New Guinea.
- (b) proper accounting records have been kept by the Commission, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Inadequate Documentation for Expenditure

I was not provided with adequate documentation to obtain sufficient and appropriate audit evidence on the Commission's reported expenditure totalling K6,166,531 for the year ended 31 December 2018.

Accordingly, I could not perform the necessary audit testing procedures. Therefore, I was unable to validate the accuracy of the expenses of the Commission for the year ended 31 December 2018.

Payroll Expenses and Salary & Wages Tax

My review of the payroll transactions revealed significant errors in the calculation of the salary and wages tax. The payroll taxes of some employees have been calculated based on the initial salary package of the employee and not based on the current remuneration. Salary increases, allowances and other benefits were not subjected to salary and wages tax.

In addition, I was not provided with reconciliation for the variances noted in the payroll calculations and satisfactory explanation on the basis used for calculating the salary and wages tax. As such, I was unable to ascertain the accuracy, completeness and reasonableness of the payroll transactions and salary and wages tax for the year ended 31 December 2018.

Documentation for the Purchase of Assets

Included in the property, plant and equipment were Memory Access Retrieval System (MARS) V2.0 and VAS-INV Accident Investigation softwares purchased from Plane Science Inc. amounting to US\$488,000 (K1,267,207). I was not provided with sufficient appropriate and relevant documentation in relation to the purchase including appropriate approval from relevant authorities. As a result, I was unable to ascertain the value and the corresponding depreciation expense taken up in the financial statement for the year ended 31 December 2018.

Fixed Assets Register

The Fixed Assets Register maintained by the Commission was not updated during the year. The value of the property, plant and equipment reported at K2,209,362 in *Note 4* to the special purpose financial statements did not agree with the amount in the Fixed Assets Register. No reconciliation of the variance was provided for my verification. As a result, I was unable to ascertain the accuracy and completeness of the reported value of the property, plant and equipment as at 31 December 2018.”

42.2.2 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 2018 was issued on 27 April 2020. The report contained the following observations:

Journal Entries Preparation and Approval

Several journal entries were processed during the year without sufficient relevant supporting documentation. In addition, I noted that almost all of the journal entries were not reviewed and approved prior to posting to the general ledger.

Financial Delegation Authority

The Chief Executive Officer (CEO) of the Commission was 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 result in misuse of public funds. The management responded as follows:

“The PNGAIC’s newly developed Finance Management Policy and Procedures Manual has that Covered.”

Employment of Expatriate under TSSP/AHC Co-funding Arrangement

I noted that an expatriate had 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 had 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 was 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.

Further, the expatriate was entitled to a rent-free accommodation during his engagement per the contract. However, in addition to the rent free accommodation he was also paid K1,500 every fortnight totaling K78,000 in 2017 and 2018 as rental allowance resulting in non-compliance with *Public Service Management Act* and the employment contract.

I brought these issues to the attention of the management and they responded as follows:

“Many attempts were made since AHC decided to terminate the agreement. So far no progress made in 2019, and may be previous years as well. The PNGAIC Board and management are in contact with the Australian Transport Safety Bureau (ATSB) for a initial meeting in first quarter of 2020 in an attempt to revive the Agency Support Arrangement (ASA). One of the priorities for the re-establishment of the ASA through ATSB will be to seek the refund for the manager cost of employment for the period 2017 to 2019.”

Internal Auditor

During my review, I noted that the Commission still has no internal audit function since its establishment. I advised management that having an internal auditor provides and promotes sound internal controls and adds value. The management stated that:

“Currently the Board has approved for the PNGAIC to utilize external resources for the purposes of carrying out the function of internal audit. This arrangement commenced in 2019 and will be reviewed in 2020 for a decision whether to continue or to fund a full time internal auditor position.”

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)* effective from January 2000. The Board members used 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:

“Since 2019, the correct rates were applied.”

Budget vs Actual

The expenditure of the Commission was not regularly monitored against the budget for 2018. I noted several instances where actual expense was over the approved budget. I brought this to the management and they advised that:

“The finance team will task to take the necessary corrective action.”

Non-Payroll Expenses under Payroll Transaction

My review of payments revealed that several non-payroll related transactions were coursed through Kundupe banking facility and recorded into Attaché payroll system. These transactions were journalized in the MYOB on a monthly basis. I brought this to the attention of the management and they advised that:

“This practice which has been in existence in prior years has now been stopped and only payroll is paid through Kundupe. Commencing 2019, no other payments are passed through the Attaché Payroll system except for payroll.”

Payroll Weaknesses

My review of the payroll revealed the following weaknesses:

- i) The Commission’s payroll transactions were processed through Attaché payroll software. However, I noted that the functionalities of the payroll were not fully utilized. The calculation of salary and wages tax were performed manually through excel and entered in the payroll system. This practice had resulted in significant errors in the calculation of salary and wages tax;
- ii) Lack of sufficient and relevant documentation in relation to the increments of salary packages of some employees; and
- iii) Taxable benefits and allowances paid to the employees were not subjected to salary and wages tax as per the *Income Tax Act 1959*;

I brought this to the attention of management and they advised that:

“Now we have a correct and compliant payroll practice paid out of Attaché payroll system going forward.”

Fixed Assets Discrepancies

During my review, the following were noted:

- i) Capital expenditure (fixed assets) purchased during the year were not capitalized and recorded in the Fixed Assets Register. These were recorded under expense accounts in the MYOB general ledger;
- ii) The accumulated depreciation and written down values in the Fixed Assets Register (FAR) were incorrect or did not agree with the audited figures of prior years; and
- iii) Number of calculation errors were noted in the FAR.

I brought this to the attention of management and they advised that:

“Management has agreed to install and use the Fixed Assets module in the Attaché software; however, we are still waiting for budget approval to implement the above.”

Purchase of Fixed Assets not minuted in the Board Minutes

The Commission had purchased three (3) motor vehicles at a cost of K397,177 and Memory Access Retrieval System (MARS) at a cost of US\$488,000 (K1,257,207). However, the purchase of capital items were not minuted in the Board meeting minutes nor budgeted for in 2018.

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

“The MARS system was purchased before allocated budget in 2019 due to urgency of the system to use Air Niugini B737 accident at Chuuk International Airport, Federated States of Micronesia (FSM) in September 2018.”

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

The financial statements for the year ended 31 December 2018 was approved and issued on 12 March 2020. The Directors did not meet the deadline set by *Section 63* of the *Public Finance (Management) (Amendment) Act* for audited financial statements of public bodies/companies owned by the State to be furnished to the Minister before 30 April of the subsequent year.

42.3 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 2019 was in progress.

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 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 Service for the years ended 31 December 2017 and 2018 were in progress.

The Service had not submitted its financial statements for the year ended 31 December 2019 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 Objectives 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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

44.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the years ended 31 December 2013 and 2014 were issued on 11 June 2020. The reports contained similar Disclaimer of Opinions, hence, only the 2014 report is reproduced:

“DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I was unable to and do not express an opinion on the financial statements of the Papua New Guinea Forest Authority for the year ended 31 December 2014.

BASIS FOR DISCLAIMER OF OPINION

General Ledger

Proper accounting records were not maintained by the Authority for the year ended 31 December 2014. As a result, an external accounting firm was engaged to perform various reconciliations and prepare the 2014 financial statements. As a result of this, numerous journal entries were made including entries passed by the accounts team of the Authority. However, appropriate records in relation to journal entries were not maintained. Accordingly, I was unable to obtain a complete list of the journals processed during the year, or supporting documents for journal entries made. As such, I was unable to obtain sufficient appropriate audit evidence over a number of transactions recorded in the general ledger. Due to the limitations, I was unable to obtain sufficient appropriate audit evidence over the existence and accuracy of a significant number of amounts recorded in the financial statements, or determine whether adjustments might be necessary to the Authority's financial position as at 31 December 2014, and financial performance and cash flows for the year then ended.

Opening Balances

My report on the financial statements of the Authority for the year ended 31 December 2013 was a disclaimer of opinion, identifying issues in respect to royalty trust fund, reforestation levy, project development levies, cash balances, personnel emoluments, cash grants for projects, property, plant and equipment, biological assets, suspense accounts, deferred expenses, plantation income, litigation and claims, and other liabilities. I was unable to satisfy myself as to the accuracy or completeness of the opening account balances taken up for the financial year 2014. Since the opening balances enter into the determination of the results of operations and cash flows of the Authority for the year ended 31 December 2014, any adjustment necessary on such opening balances would have a consequential effect on the financial performance and cash flows for the year ended 31 December 2014. I was unable to determine whether any such adjustment to the financial performance and cash flows of the Authority might be necessary for the year ended 31 December 2014.

Royalty Trust Fund, Plantation Royalty, Reforestation Levy Trust Fund and Production Development Levies

The accounting records over timber royalties, plantation royalties, reforestation levies and project development levies for the year ended 31 December 2014 were not properly maintained. As at 31 December 2014, the royalty trust fund had a balance of K30,491,479 as disclosed in *Note 9*, the Authority's plantation royalty had a balance of K23,361,438 as disclosed in *Note 10* and the project development levies had a net balance of K10,165,173 as disclosed in *Note 12* of the financial statements. I was unable to obtain sufficient appropriate audit evidence over the completeness and accuracy of royalties and levies due and received.

Due to the inability to reconcile royalties and levies to the production of the respective timber permits or logging operations, it was not possible to obtain persuasive evidence regarding the computation and recording of royalties and levies including records of payments made to and evidence of receipts by legitimate beneficiaries.

As such, I could not determine whether any such adjustment might be necessary to the Authority's financial position at 31 December 2014, and financial performance and cash flows for the year then ended.

Fixed Assets

No physical verification was performed by the Authority as at 31 December 2014 to confirm the existence of the fixed assets included in the total balance of K44,408,293 as disclosed in *Note 5* of the financial statements. As such, I could not obtain sufficient appropriate audit evidence over the existence of the Authority's fixed assets as at 31 December 2014 and accuracy of the depreciations charged for the year ended 31 December 2014.

In addition, the Authority owned five (5) plantations within Papua New Guinea as at the year end. I noted that all of the plantation lands have been stated at cost and additional costs incurred on land improvements were not capitalised in accordance with *IAS 16 Property, Plant and Equipment*. Management had not estimated value of the uncapitalised land improvements to determine the impact to the carrying amounts of lands as at 31 December 2014, or the related impact on income and expenditure items recorded in the statement of comprehensive income.

As such, I was unable to determine whether any such adjustment might be necessary to the Authority's financial position as at 31 December 2014, and financial performance and cash flows for the year then ended.

Biological Assets

Plantation trees being biological assets have not been accounted for in the books of the Authority as assets up to the financial year ended 31 December 2014 that I reviewed. Instead, costs incurred on the tree seedlings and planting activities have been expensed in the profit and loss account, which is not in compliance with *IAS 41 Biological Assets* which requires these biological assets to be recorded at fair value less cost to sell. Management had not estimated the fair value of these biological assets to determine the impact to the carrying amounts as at 31 December 2014.

As such, I was unable to determine whether any such adjustment might be necessary to the Authority's financial position as at 31 December 2014, and financial performance and cash flows for the year ended 31 December 2014.

Suspense Account (*Difference in Suspense*)

As disclosed in *Note 14* of the financial statements, the Authority had changed its accounting software from Accpac to Attaché in 2001. My review noted that there had been a lack of proper migration of accounts from the old system to the new system which had resulted in an unknown difference of K7,458,716. This unexplained amount had been taken up in an account called “*Difference in Suspense*” as disclosed in *Note 14*, and was sitting idle without any movement since the data migration from the old system to the new system. I was unable to obtain sufficient appropriate audit evidence over the nature or basis of this *Difference in Suspense* account balance which was inflating overall assets in the statement of financial position by K7,458,716.

As such, I was unable to comment as to what adjustment might be necessary to the Authority’s financial position as at 31 December 2014, and financial performance and cash flows for year then ended.

Other Liabilities

Included in Trade and Other Payables as disclosed in *Note 12* of the financial statements are a number of accounts totalling K7,460,144 as at 31 December 2014. I was not provided with sufficient appropriate audit evidence regarding the accuracy, completeness and existence of the amount, nor was I able to perform alternative procedures to evaluate the accuracy and completeness of the individual other liabilities account balances that added up to K7,460,144.

Accordingly, I was unable to comment on the accuracy, completeness and existence of other liabilities as at 31 December 2014, and the related operating expenses for the 2014 financial year, or determine whether adjustments might be necessary to the Authority’s financial position as at 31 December 2014, and financial performance and cash flows for the year ended 31 December 2014.

Personnel Emoluments and Employee Provisions

The personnel emoluments of K27,378,795 as disclosed in *Note 4(A)* of the financial statements had a bearing on the employee provisions balance of K13,111,203 as disclosed in *Note 13* of the financial statements. However, I was not able to obtain sufficient appropriate audit evidence related to the personnel emoluments incurred and expensed or the employee provisions made. As such, I could not comment on the completeness, existence and accuracy of the personnel emoluments expensed during the year and employee benefits provided for at the year end. Alternatively, I could not determine whether adjustment might be necessary to the Authority’s financial position as at 31 December 2014, and financial performance and cash flows for the year ended 31 December 2014.

Litigation and Claim Liabilities

I was not provided with the records of legal cases or claims afoot as at 31 December 2014. Neither have I received any independent confirmation of current legal cases from the solicitors of the Authority. Therefore, I was not able to obtain sufficient appropriate audit evidence over the completeness of legal liabilities that may exist as at balance date or whether adjustments might be necessary to the Authority's financial position at 31 December 2014, and financial performance and cash flows for the year ended 31 December 2014.

Going Concern

I was unable to assess the financial position of the Authority as at 31 December 2014 due to significant matters described in the paragraphs above. Consequently, I was unable to determine whether the Authority will continue as a going concern. Should the Authority be unable to continue as a going concern, it is unlikely they will be able to realise their assets and extinguish their liabilities in the normal course of business and at amounts stated in the financial statements.”

44.2.2 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 the records of the Authority for the years ended 31 December 2013 and 2014 were issued on the 11 June 2020. These reports contained similar observations, hence, only the 2014 observations are reproduced:

Ineffective Finance Functions

I noted during the course of the audit that the finance function of the Authority had not been effective and needs strengthening through employment of skilled finance professionals and design and implementation of appropriate financial control procedures. The key issues identified were:

- Material unidentified variances existed in a number of general ledger reconciliations provided;
- Significant number of “*manual journals*” posted were neither reviewed by senior officers nor supported by appropriate documentations;
- Financial control over key processes including cash at bank, term deposits, payroll, royalties, plantation royalties and reforestation levies have not been effectively designed and are not operating effectively; and
- Poor maintenance of accounting records and documents in finance functions had prevented me from completing my audit procedures on a number of general ledger accounts.

I recommended the management to consider taking the following remedial actions:

- Re-assess the finance function resourcing level and skill sets;
- Implement finance team training, specifically with respect to the month end reconciliation process and how to perform an effective review; and
- Implement formal review process for all general ledger accounts, manual journals, etc, and ensure variances and errors identified are followed up on a timely basis.

Trade Creditors

I noted that the Authority adopts a cash basis of accounting. Therefore, there was no creditor listing maintained throughout the year.

The creditors recorded in the accounts as at 31 December 2014 were based on invoices paid subsequent to year end and relating to creditors incurred during the 2014 financial year. Also, there has been no reconciliation of trade creditors at year end to supplier's statements to ensure that all unpaid invoices are correctly recorded in the general ledger.

I advised the management that for control purposes there should be a monthly process implemented to ensure that all creditors are properly accrued throughout the year even-though the Authority is a statutory body which requires its books maintained on a cash basis of accounting.

Bank Reconciliations

Bank reconciliations were not prepared on a monthly basis during the 2014 financial year. I also noted that significant general ledger adjusting entries were passed at the year end to adjust for reconciling differences.

I advised the management that periodic review of bank reconciliation is a fundamental control to detect and prevent fraud and error associated with recording and reporting of all bank transactions. Therefore, all bank accounts must be reconciled on a monthly basis. The Finance Manager should review all reconciliations to ensure reconciling items are corrected in a timely manner.

Fees Paid to Board of Directors

I noted that fees and allowances were paid to Board of Directors of the Authority in 2014. However, all appropriate supporting documentations were not made available for my review to ensure approval of the payment of those fees and allowance by the Minister responsible for the Authority.

I recommended the management to maintain proper records and supporting documents related to payment of fees and allowances to Directors. I also recommended that a proper register must be maintained to record payment of fees and allowances to respective Directors of the Authority.

Project Development Benefit (PDB) Receipts and Payments

From my review of the *Project Development Benefits* general ledger accounts, I noted the following related general ledger accounts as at 31 December 2014:

GL Accounts	2014 (K)
PNGFA 984009124 Premium Receipts	511,706
PNGFA 984009125 Premium Payments	(500,649)
PNGFA 984009148 Domestic Processing Benefit	103,992
PNGFA 984009127 40% PDL For New FMA Projects	4,110,690
PNGFA 984009128 60% PDL For New FMA Projects	3,123,596
PNGFA 984009129 PDL Receipts	7,626,114
PNGFA 984009310 PDB Payments	(4,799,219)
Total	10,176,230

- I noted that the actual funds held in the Project Development Benefit bank account was K5.3 million and cash held in IBD was nil. This indicates that there was K4.9 million (K5.3m + K10.2m – K4.9m) deficit funds for the project development benefit then what was recorded in the ledger account;
- I have not verified the projects being implemented in 2014 using those funds due to lack of project reports;
- I have not obtained the details of the supporting documents of the receipts from 2001 to 2014; and
- In addition, I have not received documentation of the payments, including evaluation and awarding of contracts for the PDL/PDB projects.

I recommended to the management that:

- Accounting policies must be drafted and implemented to guide the process of initiation, authorization, recording and reporting of PDB/PDL receipts and payments;
- The balance of the bank and IBD accounts must be reconciled to the balance of the PDL/PDB liability general ledger accounts on a monthly basis; and
- The Authority should fast track implementation of projects in logging areas so that people can have access to the basic and relevant services.

Reporting Requirements under *Forestry Act 1991*

The *Forestry Act 1991* requires the Board of PNGFA to furnish to the Minister an annual report on the progress and performance of the finances before the end of March of succeeding year. I note that this had not been complied with for the financial year ended 31 December 2014.

I stressed the repercussions of non-compliance with the required law and recommended the management to strictly comply with *Section 20* of the *Forestry Act 1991*, by producing the annual report on time to enable the Board to report to the Minister in a timely manner.

Journal Entries

From my review of the journal entries, I noted the following:

- a) Some journals posted into the general ledger system were not independently reviewed by the Finance Manager and some journals were not stamped as posted;
- b) The journals were not maintained in order of the batch number and date of posting;
- c) No evidence was available to prove that year end journal entries prepared by the Accounting Consultant were reviewed by the Finance Manager and approved for posting; and
- d) I could not obtain the complete listing of all the journal entries processed during the year.

I stressed that the key controls to detect fraud and errors in financial reporting are segregation of duties and independent review of journals posted into the ledger systems. Without such controls, the general ledger system and the resulting financial reports it produces may be materially misstated. Hence, I recommended to the management that:

- a) All journals prepare by any department, including payroll officer and Accounting Consultants must be reviewed independently and approved for postings by the Finance Manager;
- b) The Finance Manager should collate all journals and maintain a central filing in order of their batch number and posting date; and
- c) All journals posted should be clearly indicated as posted.

Interest from Royalties and Levies Trust Funds

I noted that interest earned from royalties and levies trust funds held in the interest bearing deposits were transferred to PNGFA's bank account. These funds were then utilized by PNGFA for its operations. The trust deed was not made available for my review to confirm whether the practice has been allowable. As such, I am also not aware of any specific restrictions on how the trust funds are to be managed. I recommended that PNGFA must consider revisiting the trust deed to ensure interest earned from trust funds are treated in compliance with the terms of the trust deed.

GST Suspense

I noted that Bulolo Plantation, a branch of the Authority claimed K4,244,199 as GST receivables from its sole customer, PNG Forest Products Limited (PNGFP) as at 31 December 2014. The GST was computed at 10% on all log sales to the customers and taken up as receivable in the books of the Bulolo Plantation. A corresponding liability of K3,955,091 was also booked to indicate the GST amount remittable to the Internal Revenue Commission.

The PNGFA claims that no GST is payable to IRC on the basis that PNGFA is exempted from GST (Income Tax) which is contrary to its own understanding that GST applies to the Bulolo operations. I was told that PNGFA had written to IRC seeking their intervention in confirming the GST status of the Bulolo Plantation. However, IRC has not responded to date.

I advised the management to follow up on this matter with IRC and obtain a confirmation on the GST status of Bulolo Plantation. Based on IRC's response, accounting of GST in the general ledger must be rectified.

Accounting for PIP Funds

As at 31 December 2014, there was no PIP account balance, however, there was a cash grant of K1,500,000 recorded in the general ledger. The funds receipted related to capital projects which required them to be treated as deferred income in the balance sheet and amortized over the useful life of the project. In addition, I was not able to verify the warrants received to the bank statements as there were lack of audit trail to verify these balances.

I advised the management that capital grants should be treated, accounted and disclosed in accordance with requirements under the International Financial Reporting Standard, and record and track the utilization of funds and produce regular project reports to assist in effective monitoring of the projects.

Access Controls over Payroll System not Effective

I obtained the Attaché system access authority level for the year ended 31 December 2014 and noted that all team leaders and the managers have 'level 1' access. This means they can perform all functions in all modules including payrolls. The payroll reports I requested to perform my control testing were not provided which indicates that the control environment had been ineffective.

I brought to the attention of the management that the Authority should immediately review the level and type of system accesses granted to the staff members and rectify any unauthorized accesses to the system. I also advised that the "level 1" access to the attaché payroll system should be restricted to the HR and IT Managers only.

Claims by PNG Timbers Limited

I noted from review of the Board meeting minutes that the NEC in 2012 resolved PNGFA to settle K450 million which was in court battle to PNG Timbers Limited. The *Forest Management Act* states that NEC has the powers to act for the Authority, thus this amount would be settled unless further referral is made.

As at 31 December 2014, this matter had still not been settled and yet I could not obtain further documents on the assessment of this claim over the completeness, accuracy and existence of this liability to the Authority.

I advised the management that proper assessment of the above claim and all related liabilities and costs related to the claim should be recorded. Management should have a register to record all claims and the probabilities of each claims assessed timely.

44.3 STATUS OF FINANCIAL STATEMENTS

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

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

The Authority had not submitted its financial statements for the years ended 31 December 2017, 2018 and 2019 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 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 2018 and 2019 for my inspection and audit, despite numerous reminders.

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 STATUS OF FINANCIAL STATEMENTS

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

The Institute had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

47. PACIFIC INSTITUTE OF LEADERSHIP AND GOVERNANCE (Formerly Papua New Guinea Institute of Public Administration)

47.1 INTRODUCTION

47.1.1 Legislation

The Pacific Institute of Leadership and Governance (formerly Papua New Guinea Institute of Public Administration) was established under the *Pacific Institute of Leadership and Governance Act 2017*. This Act came into operation on 1 May 2018 as per *Gazettal Notification No. G262 of 2018* dated 24 April 2018, thereby repealing the *Papua New Guinea Institute of Public Administration Act 1993*.

Under this Act, all assets held by and obligations and liabilities imposed on the former Papua New Guinea Institute of Public Administration immediately before the operationalisation of the Act were on that date transferred to the Pacific Institute of Leadership and Governance.

47.1.2 Objectives of the Institute

The objectives of the Institute are to:

- achieve excellence in providing organisational needs based training focused on ethical leadership, strategic planning, corporate services and related management processes to enhance public sector performance;
- establish the Institute as the premiere provider of ethical needs based training products and programs of choice for the Pacific Island Nations through training based partnerships;
- develop, maintain and promote the recognised training standards and qualifications regime for public sector organisations in collaboration with the department responsible for personnel management and the National Training Council; and
- operate as a business concern and raise revenue for the Institute to minimise budgetary support from National Government through partnerships established with public and private training research and delivery organisations within Papua New Guinea and in the Pacific region.

47.1.3 Functions of the Institute

The functions of the Institute are to:

- promote excellence in training standards and service delivery to meet the aspirations of integrated human development and inclusiveness as required by the Constitution;

- conduct applied research, engage consultancies and collaborate with public and private sector training organisations and professional bodies, including the Papua New Guinea National Research Institute and the National Training Council, in order to design an up to date training standards and qualifications framework;
- collaborate with the Department of Higher Education, Research, Science and Technology in order to establish bringing arrangements for suitably qualified diploma students to upgrade their qualifications to recognised degree level at selected higher education institutions;
- assist the provincial and district administrations to conduct training needs analysis and develop training programs to address the need for financial, human resource, planning and project management skills;
- explore, promote and deliver training opportunities for students from Pacific Island nations; and
- any other functions conferred upon it by *Section 7* of the *Public Institute of Leadership and Governance Act 2017*.

47.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

47.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Institute for the year ended 31 December 2014 was issued on 20 March 2020. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

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

BASIS FOR QUALIFIED OPINION

Internal Control Environment

My review on the accounts and records of the Institute for the year ended 31 December 2014 revealed that weak internal controls operated during the year under review. There were no approved procedural guidelines or manuals to guide the daily operations of the Institute in respect of approval limits, authorization of expenditures and other recurring activities. Further, I noted that the accounts were maintained using spreadsheets (Microsoft Excel) without having a proper accounting system/software.

In the absence of proper internal control mechanisms, I was unable to place any reliance on the effectiveness of the internal control system and whether this will have a bearing on the financial information recorded and disclosed in the financial statements.

Fixed Assets

I noted that the Institute did not maintain a Fixed Assets Register for all non-current assets acquired by the Institute over the years-to-date. In the absence of a Fixed Assets Register, I was unable to ascertain the correctness, appropriateness and valuation of the fixed assets totaling K448,466 as reported in the financial statements. Further, the amount disclosed in the financial statements reflects only the additions for the year under review. Further, the carried forward prior years' acquisition of properties and other assets worth millions of kina located in the Head Office and the four (4) Regional Offices were not disclosed by way of note to the financial statements. I also noted that the Institute has not carried out any physical count of fixed assets over the years to ensure that assets have properly been recorded and are in existence. As a result, I was unable to confirm the valuation, existence and accuracy of the fixed assets acquired by the Institute over the years-to-date.

PGAS Salaries and Allowances – K3,308,200

During my review of the Institute's salaries and allowances, I noted that the personnel files of employees selected were not updated and properly maintained. There were no salary and wages declaration forms (Form S3) from IRC present in the personal files. I also could not validate the allowances and other benefits paid during the year for the three (3) pay periods selected due to discrepancies between the employment contract rates, personnel documents and the Alesco payroll documents. Further, I noted that the employees were not taxed using the prescribed tax rate based on the amount of salaries and allowances received; most were under taxed. Consequently, I was unable to perform the necessary examination on salary and allowances paid during the year and conclude on the accuracy and completeness of the account balance of K3,308,200 as disclosed in the financial statements.

Limitation of Scope – K68,452

The Institute did not maintain proper records of payments totaling K68,452 during the year under review. My review of the expenditures during the year revealed that records of payments totaling K68,452 were missing or not provided for my verification. Consequently, I was unable to perform my audit procedures to determine the validity, completeness and accuracy of the payments totaling K68,452 as reported in the financial statements."

47.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act* on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2014 was issued on 20 March 2020. The report contained the following observations:

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

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

Accounting Policy and Procedural Manual

During my review of the internal controls, I noted that the Institute did not have any policy and procedural manual in place to guide its financial and operational activities. The policy and procedural manuals serve as control tools to assist staff at all levels to execute their duties and responsibilities in accordance with legislative requirements and best practice. I brought the matter to the attention of the management and I was advised that it had identified this requirement as a priority and commenced work on the manual for Accounting and Finance process.

Accounting System (Software)

The Institute did not have a proper Accounting System (accounting software) in place to produce financial reports. The Statement of Receipts and Payments (Financial Statements) were being manually prepared and produced using Microsoft Excel spreadsheets. The basic accounting records were being maintained on spreadsheets to draw monthly Income and Expenditure Reports from which the Statement of Receipts and Payments was compiled. I noted this issue during my previous audits and recommended the management to consider sourcing an Accounting Software appropriate for the entity. The Institute is yet to implement my recommendation.

Bank Reconciliations

My review of the bank reconciliations of the bank accounts operated by the Institute revealed that monthly reconciliations were performed. However, I noted that the Trust Account bank reconciliation was signed and dated in December 2016. The bank reconciliations for the General Fund and Government Operational Accounts were not signed and dated by the preparer and the reviewer. Thus, I was unable to substantiate whether there was segregation of duties and whether the bank reconciliations were done on a timely basis.

General Fund Account (GFA) Wages

During my review of the wages, I noted that staff personnel files did not have salary history cards as well as approved time sheets for actual hours worked. As a result, I was unable to determine whether the staff wages were calculated correctly and accurately according to the actual hours worked by each employee.

Travel Advances and Acquittal Register

The Institute 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 K348,218 during the year under review. Consequently, the Institute had breached the *Public Finances (Management) Act 1995 (as amended)* and the *Financial Management Manual Part 20 paragraphs 11.2 & 12.10* which states that cash advanced to officers on official duty travels must be acquitted advances within 14 and 7 days for international and domestic travels respectively upon return from duty travels. In the absence of a Travel Advance Register, the Institute was unable to monitor the acquittals promptly.

Service Providers Contract

During my review on the Institute's expenditures, I noted that contractual agreements or terms of references were not attached to payment vouchers or maintained separately and provided for my verification. In the absence of the contract agreements, I was unable to verify the basis on which the consultancy payments were made to the consultants or service providers.

I brought the above issue to the attention of the management and I was advised that the management would take heed of the recommendation made.

Lack of Three (3) Quotations – K75,458

I observed that the Institute made payments totaling K75,458 without obtaining three (3) written quotations from reputable suppliers when making payments for expenditure exceeding K5,000. Consequently, the Institute had breached the requirements specified under the *Public Finances (Management) Act 1995 (as amended)*. As a result, I was unable to place reliance on the effectiveness of the internal controls surrounding the procurement of goods and services of the Institute.

47.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the years ended 31 December 2015, 2016 and 2017 had been completed and the results were being evaluated.

The Institute had not submitted its financial statements for the years ended 31 December 2018 and 2019 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 report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the College for the year ended 31 December 2018 was issued on 15 October 2019. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- (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 2018 and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION

Valuation of Non-Current Assets – K10,394,866

I noted that since the establishment of the College, there was no valuation exercise carried out on its properties and other assets totalling K10,394,866 by an independent valuer to determine the fair values of the College 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 had not carried out any stocktake on all its fixed assets over the years and thus 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."

48.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the accounts and records of the College for the year ended 31 December 2018 was issued on 15 October 2019. The report contained the following significant matters:

Title Deeds of College Properties

During my review of the Land & Buildings, I noted that for eleven (11) properties 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 the eleven properties.

I brought the above issue to the attention of the College Management and I was advised that communication had commenced with various stakeholders 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 299 G* 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 would 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 had 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 continues 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."

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 management in my previous audits and followed up during the current audit as well.

I was advised by the College 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 College had submitted its financial statements for the year ended 31 December 2019 and arrangements were being made to commence the audit 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 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, 2018 and 2019 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 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, 2018 and 2019 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 contribute to 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 AUDIT OBSERVATIONS

51.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* of the University's financial statements for the year ended 31 December 2017 was issued on 11 March 2020. The report did not contain any qualification.

51.3 STATUS OF FINANCIAL STATEMENTS

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

The University had not submitted its financial statements for the year ended 31 December 2019 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 Company 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 completed and results were being evaluated.

The Company had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015, 2016, 2017, 2018 and 2019 for my inspection and audit.

51B. UNITECH DEVELOPMENT AND CONSULTANCY COMPANY LIMITED (Subsidiary of PNG University of Technology)

51B.1 INTRODUCTION

Unitech Development and Consultancy Company Limited was 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, 2018 and 2019 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 years ended 31 December 2018 and 2019 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 the audit reports were being finalised.

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 years ended 31 December 2018 and 2019 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 on 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 reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the years ended 31 December 2017 and 2018 were issued on 27 May 2020. The reports did not contain any qualification.

54.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2017 and 2018 were issued on 27 May 2020. The reports contained similar observations, hence, only the 2018 report is reproduced:

CASH AT BANK – Bank Reconciliation

My review and examination of the 2018 bank reconciliations for the Authority's three bank accounts revealed that the reconciliations were not prepared, reviewed and certified by the designated officers on a timely basis for all three bank accounts. This practice leads to a breach of provisions of the *Public Finance (Management) (Amendment) Act 2016* and the *Financial Management Manual*. I recommended that the Authority must comply with the *Public Finance (Management) (Amendment) Act 2016* and the *Finance Management Manual*. The management responded to my concern as follows:

“Management has taken note of the audit findings and has taken corrective measures to ensure bank reconciliations are prepared in a timely manner and in accordance to Financial Management Manual Part 3, Section 4.7 (Bank Reconciliation). Due to the transition period from NRSC to RTA, management have performed bank reconciliations; however, that was on a cash basis. The reconciliations are now being prepared from the Accounting system against the bank statements and verified, checked and signed by preparers and reviewers.”

PROPERTY PLANT & EQUIPMENT – Fixed Assets Management

The Authority had not maintained a proper Fixed Assets Register in 2018. The absence of a proper and updated Fixed Assets Register exposed the Authority to high risk of losing its properties through theft and other means. I drew this observation to the attention of the management of the Authority and they responded to my observation as follows:

“Management agrees to the findings and has updated its Fixed Assets Register for 2017. To maintain proper control, RTA will conduct half yearly stocktake to verify the conditions and keep track of its fixed assets and also to disclose correctly the value of fixed assets at year-end.”

INCOME – Traffic Infringement Notices

My review of the income of the Authority revealed that there were weaknesses in the controls surrounding record keeping functions and issue of receipt books. There were also instances where TIN receipt books given to police officers were not returned to the Authority and some Inspectors had lost the TIN books. Further, fines and fees schedules and summaries of deposits were not properly arranged and filed. I brought this issue to the attention of the management of the Authority and they responded as follows:

“Management concurs to the audit findings and necessary measures have been taken to address the control issues. RTA now has an approved Finance and Accounting Manual which specifically outlines the processes of receipting and collection and also to maintain, records of transaction, filing of payment vouchers for audit purposes and future references.

Besides, only Gazetted RTA Traffic Enforcement Officers (TEO) are now authorized Officers to use the Traffic Infringement Notice (TIN) book and not police officers. The procedures of Collection of revenue will be monitored by the Managers concerned in this process.”

PAYROLL – Maintenance of Staff Personnel Files

During my review of staff personnel files, I noted that the staff personnel files were not properly and timely updated with salary history cards, employment letters, birth and marriage certificates, leave records and salary and wages declaration forms. In the absence of these valid documents, I was unable to verify each of the officers’ salaries/wages and allowances provided for at the year end. I drew this observation to the management of the Authority and the management responded as follows:

“Management agrees that some employee’s files were not properly and timely maintained during the transition from National Road Safety Council to Road Traffic Authority.

Management have taken corrective actions and has developed the Admin and HR manual approved by Board in 2016. This is used now as a guideline for update of staff records and files on a regular basis. Management have started to maintain proper records of staff and also improved its efforts in compliance to IRC requirements by filling in the salary wages forms and others for yearly lodgement with IRC.”

EXPENDITURES - Procurement Process Review

My review of the procurement process of the expenditure accounts and records of the Authority for the year ended 31 December 2018 revealed the following discrepancies:

- Several payments could not be verified as I was not able to locate their respective payment vouchers in the files provided for my review;
- There were instances in which expenses incurred for operational expenses had no proper or complete supporting documentations to substantiate the validity of the payments; and
- There were instances where payments were made without obtaining three quotations from three different suppliers as required under the provisions of the *Financial Management Manual*.

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

“Management agrees with audit findings and has addressed the issues by ensuring all supporting and relevant documents are duly attached for payment processing, maintaining proper record of its transaction and to ensure proper filing of payment vouchers for future reference.

Furthermore, the compliance relating to minor procurement for goods and services as per the Public Finance (Management) (Amendment) Act 2016 is noted and will be adhered to.”

Travel Acquittal Register

My review of the travel and subsistence expenses revealed that the Authority had not maintained a Travel Advances Register with acquittal files for all duty travels and related expenses. This resulted in an amount of K31,347 of travel and subsistence expenses not being acquitted from a total of K134,747 at year end. I advised the management of the Authority that this was a breach of the provisions of the *Public Finance (Management) (Amendment) Act 2016* and the *Financial Management Manual* and to comply with the above legislations. I brought this observation to the attention of the management and they responded as follows:

“Management has addressed this issue by having a travel register and have appointed a staff to manage the travel acquittals with the instruction to refuse travel request if acquittals are not submitted. Travel Acquittals Register File is now being maintained and shall be checked and monitored by the Finance Section.”

54.3 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 2019 for my inspection and audit.

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 2016 was issued on 21 April 2020. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- a) 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 Authority for the year ended 31 December 2016 and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION

Fixed Assets – K477,960

My review of the Fixed Assets Register (FAR) revealed that the Register was not properly maintained and updated on a timely basis by the Authority. No proper stock-take was done to confirm the existence and to determine the fair value of each asset held at year end. I also noted that assets were not numbered/tagged and no acquisition dates were provided for me to verify the depreciation calculated on assets listed in the Register. Based on the findings, I was unable to place reliance on controls surrounding the management of fixed assets. As such, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K477,960 disclosed in the financial statements.

Accounts Receivable – K63,445

My examination of accounts receivable revealed that receivable balance was understated as it did not capture licence and permit 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 receivable amount stated in the financial statements.”

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 2016 was issued on 21 April 2020. The report contained the following observations:

Register of Disciplinary Points

I noted that the Authority has 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 Register of Disciplinary Points managed by the Manager Licensing and Compliance whilst awaiting the gazettal of the 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:

“I have noted your concerns and I will take it up to the Council in the next meeting to ensure the full Council endorses the 3 men before their gazettal by the Chairman (Police Commissioner) before the Board of Complaints comes into existence in compliance with the law by this year 2020.”

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 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 cancellation 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 return by Security Companies as required by Section 76 of the Security (Protection) Industries 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) Industries Act for failing to submit the Annual Returns, therefore we cannot cancel the security providers’ license and guards’ permit or penalize security companies in one way or another.”

Council Stipend and Sitting Allowances – Ex officio members

My review of the Council members and related expenses revealed that two ex-officio members were paid sitting allowances and stipends. 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 eligible to receive the sitting allowances and stipends.

This practice is in breach of *Section 3* of the *Boards (Fees and Allowance) Act 1955* and *Section 25(3)* of the *Public Finance Manual* and *Circular Instructions 21/2000* and *1/2005* from the Department of Personal 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 are required to travel. I drew this matter to the attention of the management and they responded as follows:

“I confirmed your audit findings on this issue and I will bring it to the full council members’ attention to deliberate on this issue. Because right now I cannot stop paying them as recommended by you until the full council passes a meeting resolution to stop payment of the stipends and sitting allowances to ex-officio council members then, I will legally effect your recommendation. I will advise the full council members in the council meeting of your audit finding and advise them of the audit recommendation to stop this payment.”

Increase in Council Stipend and Sitting Allowances

My review of the 2015 meeting minutes of meeting number 2 of 2015 held on 8 September 2015 noted that the council members approved for themselves an increase in stipend and sitting allowances. I further noted that the increased rates were over the threshold set by the Department of Personal Management in circular number 21/2000. The Authority as per the circular is classified under Category “A” as *Commercial Statutory Authorities*. The Authority is in breach of *Section 3* of the *Boards (Fees and Allowance) Act 1955* and *Circular Instructions 21/2000* from the Department of Personal Management.

I recommended the Authority to ensure compliance with *Section 3* of the *Boards (Fees and Allowance) Act 1955* and *Circular Instructions 21/2000* from the Department of Personal Management as the Authority is a *Commercial Statutory Authority* created by an *Act of Parliament*. The Authority responded to my observation as follows:

“I confirm that the Council members through the full legally constituted quorum in Council Meeting 2 held on 8 September 2015, voted to increase their Stipend and Sitting Allowances based on the following reasons:

- a) *The Security Industries Council members raised concern that they were not paid at a rate similar to other SOE Board members as their current fees were much lower. Therefore, one of the council members at that time was tasked by the full council to compare their remunerations with other SOEs and private Boards' terms and conditions. Which he did and presented the written findings to the full council thereafter resulting in the vote to increase their sitting and quarterly stipend allowances.*
- b) *This Council stipend and sitting allowances increase is consistent with section 8 (2) (D) of the Security (Protection) Industries Act, 2004 to increase its stipends and sitting Allowances.*

However, I also noted your references to Section 3 of the Board Fees and Allowances Act, 1955, Part 25 (3) of the Finance Management Manual as well as Circular Instruction 21/2000 and 1/2005 issued by Department of Personnel Management as your source of supporting authority to say that the increase is wrong. I therefore, will bring your concerns on this matter to the Council in the next meeting to deliberate on this issue."

Improper Payments of Stipend and Sitting Allowance

I noted that the Authority's Council members were paid full four (4) quarterly stipends and sitting allowances balance of K317,500 during the year under review. However, only one (1) Council meeting was conducted for the year and second meeting was through board resolution paper without any meetings conducted for the second, third and fourth quarter of 2016. The payments were improper and deviate from the original intended practice whereby a council member can only be paid sitting allowance and stipend upon attendance of council meetings as per *Circular Instructions 1/2005* issued by the Department of Personnel Management. I brought this issue to the attention of the management of the Authority and they responded to my observation as follows:

"I agree that the Council members were paid their quarterly stipends in 2016 despite sitting for only one council meeting in which sitting allowances were paid for this one meeting only. The quarterly stipends were paid to council members on quarterly basis even when the meetings were held or not. This is because we have been following Public Finances Management Manual Part # 25 subsection 4.

However, we now take note of the recommendation given to follow Circular Instruction No.2/2005 and we will inform council members for their appropriate actions going forward in the next meeting to deliberate on this issue for the Authority to implement."

Bank Reconciliations

My review of the bank reconciliations for the two (2) accounts maintained by the Authority revealed that the reconciliations were not done on a timely basis. Bank reconciliations for 2016 were only prepared in 2019 prior to the commencement of the field audit. As a result, I was not able to place reliance on the effectiveness of the internal controls surrounding the bank reconciliation function. I drew this matter to the management and they responded to my observation as follows:

“We agree and confirmed the weaknesses highlighted by the audit for the year 2016. The Management has already action this and it will be reflected in 2019 financial statements.”

SALARIES AND ALLOWANCES – (K871,638)

Personnel Files

During my review of the personnel files for certain selected officers of the Authority, it revealed that the Authority now maintains salary history cards in their respective personnel files. However, the salary history cards were not updated by the Human Resources in terms of base salary, higher duty allowance and other allowances. Also, leave records for each employee such as recreational, sick, compassionate and long service leaves were not updated. Poor maintenance of staff personnel files can increase the risk of fraud and error such as dubious dependency claims and payment of contract officers on invalid unsigned contracts. The Authority might use wrong rates for calculation of entitlements for the staff. I drew this issue to the attention of the management and they responded to my observation as follows:

“Upon my appointment as Registrar, I have taken on board the audit recommendations and recruited a new Human Resources Officer which gradually addressed all those issues. However, we appreciate those few weaknesses highlighted and we will take on board recommendations given.”

Recreational Leave Fares

My review of the leave fares expenses revealed that the Authority paid leave fares to its employees and their dependents totaled K23,756 during the year under review. However, I was unable to verify the validity and authenticity of the staff dependents (children) ages for leave fares as no birth certificates were attached to the payment vouchers in the personnel files. As a result, I was not able to confirm whether the Authority was complying with *General Orders 14.41*. I drew my observation to the management and they responded as follows:

“We take note of the observation highlighted for annual leave fares paid of K23,756 and the validity issue of dependency claim. This is the total amount paid for the year which includes four officers. Dependencies paid are legitimate as these dependents were declared through staff IRC Tax forms and Superannuation forms. These documents are attached to the staff respective files.

We are being mindful of that as each time staff lodge for leave fares, we ensure legitimate dependents are paid for and within the age limit specified in the GSO for children. However, for further compliances, we take note and it will be address.”

Non maintenance of Acquittal File and Travel Advances Register

My review of the travel and subsistence expenses totalling K127,377 incurred by staff on duty travel (domestic and overseas) revealed that the Authority did not maintain a Travel Advances Register to ensure that the advances were properly recorded and timely acquitted. As a result, the above total amount remained outstanding or unacquitted at year end. I drew this issue to the attention of the management and they responded as follows:

“We take note of the weaknesses highlighted and recommendation given and will be taken on board.”

55.3 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, 2018 and 2019 for my inspection and audit.

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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

56.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Corporation for the years ended 31 December 2016 and 2017 were issued on 30 September 2019. The reports contained similar Qualified Opinions, hence, only the 2017 report is reproduced:

“QUALIFIED OPINION

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

- (a) are based on proper accounts and records; and
- (b) are in agreement with those accounts and records and present fairly, in all material respects, the Corporation’s financial performance, financial position and its cash flow for the year then ended.

BASIS FOR QUALIFIED OPINION

Financial Incentive Schemes – K558,635

The Corporation maintains security deposits (Gurantee) with the Australia and New Zealand Bank (ANZ), National Development Bank (NDB) and Nationwide Microbank (NMB). My review on these deposits revealed the following:

- The Corporation did not maintain detailed records/schedules and supporting documentations of loans granted to businesses by the Corporation to date;
- The total security placed with various commercial banks of K3,250,000 in 2005 decreased to K558,635 as at 31 December 2017. There were no proper records maintained by the Corporation to substantiate this reduction. Further, the Corporation lacked proper and detailed information in relation to loans granted, loan defaulted, written off loans and current active loans;
- A variance of K133,917 was noted between bank statements and the financial statements relating to Nationwide Microbank; and
- A balance of K952,715 was transferred back to the Corporation from ANZ Banking Group on 27 January 2017 without details of written-off or default loans.

As a result, I was unable to obtain comfort over the completeness and accuracy of the balance disclosed at year end and further place reliance on the monitoring processes of the loans granted to the borrowers.

Fixed Assets – K4,816,361

My review of the fixed assets of the Corporation revealed the following issues:

- The Corporation did not maintain a proper and complete Fixed Assets Register in 2017 to capture all asset particulars such as asset numbers or coding, location and custodian;
- There was no clear policy formulated by the Corporation in relation to acquisition, capitalization and disposal of assets;

- No stock-take was conducted on its fixed assets for a number of years up to 31 December 2017. Assets were not counted and tagged with asset identification codes for verification and control; and
- The semi-mechanized leather factory that was built and completed in 2012 including the machinery and equipment installed were yet to be used due to non-commissioning and absence of technical expert. However, both the building and the machinery were depreciated to the net value of K1,793,140 and K166,686 respectively.

Due to the above recurring issues, I was unable to rely on the effectiveness of the internal controls surrounding the management of fixed asset of the Corporation. Further, I was unable to conclude on the valuation, accuracy and existence of the fixed assets amounting to K4,816,361 as at 31 December 2017.”

56.2.2 Audit Observations Reported to the Ministers

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

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

The *Public Finance (Management) (Amendment) Act 2016 Section 63(1)* and *63(3)* requires the Corporation to furnish to the Minister before 30 April each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. However, the Corporation has not prepared and submitted its financial statements for the year ended 31 December 2017 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 April 2018. Accordingly, the Corporation breached *Section 63(1)* and *63(3)* of the *Public Finances (Management) (Amendment) Act 2016*.

Account Balances without Proper Supporting Documentation

Disclosures relating to Other Debtors, Creditors and Accruals and Other Income of K16,231, K57,840 and K64,016 respectively, were not properly supported by appropriate source documents. I was unable to confirm the accuracy and completeness of this disclosures and the balance presented in the financial statements.

Preparation of Bank Reconciliations

The Corporation maintained six (6) bank accounts during the year under review. I noted that the bank reconciliations for the accounts were not prepared, reviewed and verified by concerned officers on a timely basis.

As such, I was not able to place any reliance on the effectiveness of the controls surrounding the bank reconciliation process. In addition, existence of such weaknesses in the internal control system may result in Corporation's inability to properly monitor, control and safeguard cash at bank against the risks associated with it. Consequently, I was unable to satisfy myself as to the correctness, completeness and existence pertaining to the cash balance of K832,602 disclosed at year end.

Operational Policy Manuals

Internal control mechanisms such as accounting manuals, operational guidelines and policies of an entity 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. My review revealed that there were no such operational procedural manuals drafted and used. 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 Corporation. 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 and sections.

I brought this issue to the attention of the management and recommended the Corporation to have in place operational policy manuals and to be used by all levels of operations. Management responded to my comments as follows:

“At the time of this response, the Human Resource Policies and Procedures Manual is currently being worked on whilst an accounting firm had been selected by the board after the due bidding process to undertake the review, design and development of a new accounting policies and procedural manuals for the organization.”

Board Meeting Minutes

The Corporation did not maintain proper records of its meeting minutes in 2017. Minutes for the third and fourth meetings were not approved by the Chairman of the Board. As such, I was unable to confirm whether proceedings recorded were correct and whether issues deliberated were in the best interest of the Corporation. I raised this issue with the management and the response was as follows:

“The third and fourth quarters 2017 Board Meeting Minutes were edited after members noted and corrected few typing errors in the subsequent scheduled board meetings and the amended versions were hand delivered to Chairman of the SMEC Board for signature after verification and confirmation that minutes were true records of the proceeding of the meeting. After numerous reminders and due to busy business schedule, Chairman is yet to return the signed copies. Copies will be made available to AGO once they are received from the Chairman.”

Internal Audit Function

During my review of the internal audit function, I noted that the Corporation did not fully utilize the internal audit to review various processes and systems and to provide necessary recommendation for the management to improve on the internal control weaknesses noted in the prior year audits. This issue on the role of the internal audit function and its lack of performance was brought to the attention of the management previously and yet to be addressed by the Corporation. I brought this issue to the attention of the management again for their necessary action.

Office Rental (Government Grant) – K1,323,414

I noted that the Corporation received rental grants from the government totaling K1,323,414. However, the source documents such as warrants, remittance advices and invoices were not provided to me for my verification. As a result, I was unable to verify and confirm the balance disclosed in the financial statement.

Travel Acquittal Register

My review of the travel and accommodation revealed that the Corporation did not maintain a Travel Acquittal Register to keep proper records of all the duty travel advances taken. I also noted that travel and accommodation expenses amounting to K825,230 were never acquitted. It is a requirement under *Financial Management Manual, Part 20, Paragraph 12.2* that a Financial Delegate/Authorizing officer shall maintain a Register of Advances to officers on duty travel. It must also be noted that it is a requirement under the *Financial Management Manual, Part 20, Paragraphs 11.2 and 12.10* that cash advanced to officers on overseas official duty must acquit travel advances within fourteen (14) days of return from duty travel, and advances to officers for domestic duty travels to be acquitted within seven (7) days of return from duty travel by submitting the acquittal form. In the absence of Travel Acquittal Register and the corresponding travel advance and expense acquittal documents, I was unable to confirm whether the travel and subsistence payments made were for the intended purposes.

Staff Advances – K489,031

Staff Advance Register will enable the Corporation to show how much money was advanced and recouped and an advance policy will specify who is eligible for advance, penalties on default, interest on advance, and when the advance should be fully recouped. In my review of the staff advances, I noted that the Corporation had not properly maintained an Advance Register to capture and record all advances paid and recouped during the period. I further noted that the Corporation did not have a staff advance policy in place. This issue was reported in my prior year reports but management is yet to implement my recommendations.

In the absence of these such mechanisms, I was unable to verify the staff advance balance disclosed in the financial statements and further place reliance on the controls surrounding staff advances.

Weaknesses in the procurement process

My review of the Corporation's procurement process revealed the following weaknesses and inefficiencies:

- Cash payments totaling K356,957 were not supported by proper acquittals to confirm whether funds were utilized for their intended purposes; and
- Payments totaling K50,669 were executed without obtaining three (3) written quotations from three (3) different suppliers nor minor contract agreements drawn.

As a result, I was unable to place reliance on the effectiveness of the internal controls surrounding the procurement of goods and services of the Corporation for the year then ended.

56.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, 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.

The Corporation had not submitted its financial statements for the year ended 31 December 2019 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 2018 was issued on 2 March 2020. 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 inspection and audit of the accounts and records of the Authority for the year ended 31 December 2018 was issued on 2 March 2020. The report contained the following matters:

Other Taxes – K129,696

During my review of the Other Taxes Account, I noted that the Authority did not remit the Other Taxes on time to Internal Revenue Commission. I further noted that the Authority also attracted penalty fees for late payment of Group Tax. I drew this matter to the attention of the management and the management responded to my observation as follows:

“It is to be noted that the 10 % business withholding of K31,500 taxes was settled in 2014 but was returned as the Internal Revenue Commission claimed it could not correspond files with the payment. These taxes remain unpaid up to date of audit. We will settle these taxes in 2020 and provide copies of the same during the 2019 on site audit.”

Travel Acquittal Register

My review of the travel and subsistence expenses revealed that the Authority has not fully maintained the Travel Advance/Acquittal Register as required under *Financial Management Manual (Part 20)*. I noted that the travelling officers have not fully acquitted their travel advances by attaching all source documents such as the hotel and hire car receipts, boarding passes and ticket butts.

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 travel must acquit travel advances within 14 days of return from duty travel. At the same time *Part 20, paragraph 12.10* of the Manual stipulates that advances to officers for domestic duty travels to be acquitted within 7 days of return from duty travel by submitting an acquittal form and documents. I drew this matter to the attention of the management and the management responded as follows:

“We will ensure that all staff on duty travels acquit within fourteen (14) days for any overseas duty travels and seven (7) days for any domestic duty travels. We will continue to maintain the acquittals register but a more up-to-date register including a separate acquittal file for ease of access during audit.”

Consultancy Payments

During my review on consultancy payments, I noted that consultancy agreements or terms of references were not attached to payment vouchers. In the absence of the contract agreements, I was unable to verify the basis on which the consultancy payments were made to the consultants. I brought this issue to the attention of the management and management responded as follows:

“We will ensure we comply with this requirement going forward.”

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 2019 for my inspection and audit 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 Subsidiaries of the University

The University has two Subsidiary Companies, *Unigor Consultancy Limited* and *Unigor Humi Catering Limited* which were incorporated under the *Companies Act*. Comments in relation to these Companies are contained in paragraphs 58A and 58B of this Report respectively.

58.2 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 had been completed and the management letter issued on 11 December 2018. The management responses were being awaited to finalise the audit report.

The University had not submitted its financial statements for the years ended 31 December 2018 and 2019 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 Function 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 stationery;
- printing and publication of educational materials, textbooks, business documents and all other forms of print material; and
- catering and cafeteria services.

58A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

58A.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 27 April 2020. The reports contained similar Disclaimer of Opinions, hence, only the 2015 report is reproduced:

“DISCLAIMER OF OPINION

I do not express an opinion on the accompanying financial statements of Unigor Consultancy Limited for the year ended 31 December 2015. Because of the significance of matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

BASIS FOR DISCLAIMER OF OPINION**Opening Balances**

My report on the financial statements of the Company for the year ended 31 December 2014 was a Disclaimer of Opinion due to limitation of scope. My inability to obtain sufficient accounting records, source documents and reconciliation in respect of Investments, Trade Debtors, Cash and Cash Equivalents, Inventory, Provision of Annual Leave, Provision of Income Tax, Trade and Other Creditors had placed a limitation of audit scope in 2014.

As a result, I was unable to perform the necessary procedures to obtain assurance on the accuracy and completeness of the balances and further quantify the effects of such material misstatements in the opening balances of the aforementioned accounts that might have a bearing on the balances reported in the 2015 financial statements.

Cash at Bank – K120,631

My review of the bank reconciliation as at 31 December 2015 revealed stale cheques totaling K35,540 dating back to 2012 have been recorded in the reconciliation statements. The stale cheques have not been reconciled and adjusted in the Cashbook balance. As a result, I was not able to comment on the completeness and accuracy of the bank balance reported at year end.

Accounts Receivables – K646,644

My review of the accounts receivables revealed that the Company did not maintain and update the aged accounts receivable listing and similarly the individual customer sub-ledgers. Further, I noted a variance of K403,551 between the accounts receivable listing balance of K243,092 and the general ledger balance of K646,644. As a result, I was not able to gain assurance on the completeness, existence, accuracy and valuation of the receivable balance disclosed at year end.

Stock – K309,040

My review of the stock disclosed in the accounts revealed that the Company had not maintained an inventory management system to enable the proper disclosure of the cost of sales account in accordance with the *International Accounting Standards 2 - Inventories*. Apart from actual stock records, the disclosure of K309,040 in the financial statements, was only an estimate of the purchases done during the year. Consequently, I was not able to comment on the effectiveness of controls surrounding inventory management and further extend my audit procedures to confirm the completeness, accuracy and valuation of the inventory balance disclosed at the year end.

Property, Plant & Equipment – K251,938

The Company disclosed its fixed assets as K251,938 at 31 December 2015. However, this disclosure was not supported with a Fixed Assets Register and appropriate accounting records and supporting documents. Furthermore, there were no periodic stock-takes carried out on fixed assets during the year for assets owned by the Company. I was unable to perform the required procedures to verify the completeness, existence, accuracy and valuation of the fixed assets and further comment on the effectiveness of controls surrounding the management of fixed assets for the year then ended.

Investments in Associates & Joint Ventures – K551,000

My review of the Investment accounts revealed that the Company had investments in Unigor PNGTIS and Unigor Catering Ltd of K245,000 and K306,000 respectively. However, during my review, I was not provided with sufficient documents to establish whether the investments were properly accounted for using the equity method under the *IAS 28 Investments in Associates and Joint Ventures*. Consequently, I was unable to confirm the accuracy and valuation of these Investments and to further conclude whether the investment accounts were correctly recorded in accordance with the *International Financial Reporting Standards*.

Provisions for Income Tax – K194,292

The Company disclosed provisions for income tax in *Note 4* to the financial statements without any basis and appropriate supporting documents. As the balance was carried over from prior year, I was not able to establish if the provision was computed in accordance with *Section 275M (1) of the Income Tax Act 1959 (as amended)*. Further, I was unable to confirm whether income tax provisions were properly accounted for and presented in accordance with the *International Accounting Standards 12 - Income Taxes*. As a result, I was unable to gain reasonable assurance over the completeness, existence and accuracy of the provision for income tax disclosed in the financial statements as at 31 December 2015.

Missing Payment Vouchers – K150,272

My review of the operating expenditures revealed that the Company did not maintain proper records and accounts. Payments totaling K150,272 were missing from the payment voucher files. As a result, I was unable to extend my audit procedures to gain assurance over the completeness, accuracy and authenticity of these payments. The Company had breached *Section 188* of the *Companies Act 1997* which requires the Company to keep proper accounts and records of its transactions and affairs.”

58A.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 2014 and 2015 were issued on 27 April 2020. The reports contained similar significant matters, hence, only the 2015 report is reproduced:

Board Meeting Minutes

The Company did not maintain and provide minutes of the Board meetings for my audit and inspection. As a result, I was not able to comment and conclude on whether there were proper proceedings held and whether all major transactions and decisions reached were adequately deliberated and in the best interest of the Company.

I brought this issue to the attention of management and was advised that corrective action has been implemented under the current Board and Management.

Staff Capacity and Competency

My review revealed that the Company lacked qualified staff with skills in accounting and information technology. I further observed that there were no proper segregation of duties in the bank reconciliation, asset management and payroll/expenditure functions. I reiterated that present weak internal control environment and limited segregation of duties in key control areas may increase the risk of material misstatements in financial reporting.

I recommended the management to ensure that competent personnel are employed to cover key processes and/or appropriate training and development programs are facilitated to fill the competency gap. The management responded as follows:

“The new Management realised the lack of segregation of accounting staff by functions by outgoing Accountant who was also acting Managing Director – a one-man- operator. The Company has engaged Finance Officers since 2017 who are considered capable to carry out the operations and delegated tasks into the future. The staff currently on hand are committed to the Company and willing to learn which supports Management plan to further invest to upskill them.”

Preparation of Financial Statements

The Company's financial statements were not prepared in a timely manner in accordance with *Section 179* of the *Companies Act 1997*. I noted that the Unigor Consultancy Limited's management prepared the Company's financial statements for the year ended 31 December 2015 in August 2019.

Consequently, the Company had failed with the *Companies Act 1997* which requires the financial statements to be prepared within five months after the financial year of the balance date.

Tax Remittance to the Internal Revenue Commission

My review of the Company's tax obligations revealed the following:

- The Company did not remit the 2015 group tax to the IRC on a timely basis as required under *Section 299G* of the *Income Tax Act 1959*;
- The Company did not remit its Company income tax returns of the prior years as well as the income tax returns for the 2015 financial year within the time-frame required by the *Income Tax Act 1959* which remained outstanding as at 31 December 2015; and
- The Company did not remit GST returns for the 2015 financial year on time including GST returns from prior years as required by *Section 63-66* of the *Goods and Services Tax Act 2003*.

The Company had failed to comply with requirements of the *Companies Act 1997*, the *Income Tax Act 1959* and the *Goods and Services Tax Act 2003*. I reminded the management on the consequences of non-compliance and recommended for them to ensure that the Company complies with relevant statutory provisions.

Lack of Proper Accounting Records

The Unigor Consultancy Limited did not maintain proper accounting records of its transactions during the 2015 financial year. Due to lack of proper record keeping, I was unable to perform the necessary audit procedures to determine the authenticity of the amounts disclosed in the financial statements. The Company had breached *Section 188* of the *Companies Act 1997* which requires the Company to keep proper accounts and records of its transactions and affairs.

This issue had been raised in my prior year reports and management assured me that corrective action would be taken to clear all issues that had not been resolved since 2013.

Staff Advances

The other debtors included advance payments for staff rental and accommodation as well as general staff advances. My review revealed that the Company did not maintain a proper Advances Register and an approved advance policy to guide the Company in the approval, disbursements, recovery and general administration of the advances made to staff. I was therefore, unable to place reliance on the controls surrounding staff advances and further confirm the accuracy and correctness of the balance disclosed as K191,871 at year end.

I recommended the management to have an advance policy in place and an Advance Register to keep track of advances disbursed.

Management took note of my recommendations and advised that corrective actions would be taken to rectify this issue.

Staff Personnel Files

My examination of personnel records revealed that the Company did not maintain staff personnel files. Details of salary and leave history, and promotion and increments along with other personnel data were not available for audit inspection and verification. Consequently, I was unable to validate whether salaries and allowances paid to employees were based on proper employment contracts and appointment letters and further compute employee provisions disclosed in the financial statements. Similarly, I was unable to confirm whether the dependents claimed for tax rebates and leave fares were legitimate.

Consultancy Payments

The Company engaged several consultants during the year for physical planning and asset management for the year under review. However, the signed contract agreements of four (4) contractors and details of work they performed were not made available for my verification. I was unable to establish whether consultancy expenses were incurred in accordance with valid agreements.

58A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2016, 2017, 2018 and 2019 for my audit and inspection.

58B. UNIGOR HUMI CATERING LIMITED

58B.1 INTRODUCTION

58B.1.1 Legislation

Unigor Catering Limited was incorporated under the *Companies Act 1997* on the 14 December 2010. A total of 600,000 shares (100 ordinary shares and 599,900 preference shares) had been issued at K1 each. The Unigor Consultancy Limited acquired 306,000 shares (51%) and the remaining 294,000 shares (49%) acquired by Humilaveka Food Company Limited.

On 16 February 2013, the Company changed its name from Unigor Catering to Unigor Humi Catering Limited.

58B.1.2 Objectives of the Company

The primary objective of the Company is to give effect to the Joint Venture Agreement between the shareholders for the purpose of providing catering services to students of the UOG at its main campus at Goroka as a commercial venture. The Company may conduct or undertake any other business activities in the country from time to time.

58B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2011, 2012, 2013, 2014, and 2015 had been submitted and arrangements were being made to commence the audit shortly.

The financial statements for the years ended 31 December 2016, 2017, 2018 and 2019 had not been submitted for my inspection and audit.

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 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 2015 had been completed and the management letter was issued on 27 November 2019, and awaiting the management letter responses to finalise and issue the audit reports.

The University had not submitted its financial statements for the years ended 31 December 2016, 2017, 2018 and 2019 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 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 for more than two years. The audit has been delayed due to lack of co-operation from management.

The University had submitted its financial statements for the years ended 31 December 2016 and 2017 for my inspection and audit. However, due to lack of co-operation from the management, the commencement of these audits were being delayed.

The University had not submitted its financial statements for the years ended 31 December 2018 and 2019 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 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, 2018 and 2019 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, 2018 and 2019 for my inspection and audit despite numerous reminders from my Office.

SECTION B

NATIONAL GOVERNMENT OWNED COMPANIES

61. FOREWORD

This Section of my Report deals with Companies in which the Government of PNG holds more than 50% of the Issued Share Capital. On 26 January 1983, the *NEC's Decision No. 12/93* expanded my responsibilities to include the audit of National Government Owned Companies and subsidiaries thereof. The audit of Government Owned Companies is also conferred 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 **62** to **77**.

62. AIR NIUGINI LIMITED

62.1 INTRODUCTION

62.1.1 Legislation

Air Niugini Limited was incorporated under the *Companies Act*. It was formed to be the successor company of 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.

62.1.2 Objectives of the Company

The principal objectives of the Company are to:

- carry on the business of airline operators, general carriers, freight forwarders and forwarding agents, warehouse operators, shippers and general agents, ship owners charterers, hospitality and general traders, stevedores, cool store operators, flight contractors, carriers by land, air and water, insurers and insurance brokers and other business which may be usefully carried on in connection with such business;
- provide transport service, carrier freight transport, courier, taxi truck, light or heavy haulage and delivery services which involves the use of aircraft, railways, ship, road vehicle or any other means of conveyance by land, road, railway, sea, river, canal, water or air to carry and convey passengers, mails, containers, packages, parcels, bulk commodities, goods, merchandise, livestock and produce and property of every description;
- carry, collect, receive, load, unload, store, consign, distribute, transfer and deliver property of every description by any mode of transportation; and
- carry passengers by air, road, rail, land, sea or water and to operate any taxi service and to obtain any necessary licences for such purposes.

62.1.3 Subsidiaries of the Company

The Company has four (4) subsidiary companies. Comments in relation to the subsidiary companies are contained in paragraphs 62A, 62B, 62C and 62D of this Report.

62.2 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, 2017 and 2018 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

62A. AIR NIUGINI CARGO LIMITED

(Subsidiary of Air Niugini Limited)

62A.1 INTRODUCTION

62A.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.

62A.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.

62A.2 STATUS OF FINANCIAL STATEMENTS

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

The Company had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

62B. AIR NIUGINI PROPERTIES LIMITED **(Subsidiary of Air Niugini Limited)**

62B.1 INTRODUCTION

62B.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 and commenced operations in December 2018.

62B.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.

62B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection 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.

The Company had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

62C. BUSINESS TRAVEL CENTRE LIMITED

(Subsidiary of Air Niugini Limited)

62C.1 INTRODUCTION

62C.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*. It is a wholly owned subsidiary of Air Niugini Limited and commenced its operations effective from 16 December 2016.

62C.1.2 Objective of the Company

The 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*."

62C.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 2017 and 2018 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

62D. LINK-PNG LIMITED

(Subsidiary of Air Niugini Limited)

62D.1 INTRODUCTION

62D.1.1 Legislation

Link-PNG Limited came into existence on 26 June 2014 after the name changed from PNG Link Limited. The Company was incorporated under the *Companies Act* on 4 May 2010 and was acquired by Air Niugini Limited from Steamships Limited on 5 August 2014 for a consideration of K100.

Link-PNG Limited is a 100% subsidiary of Air Niugini Limited. The Company commenced the business of air travel for the PNG Domestic markets since November 2014.

62D.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.

62D.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, 2017 and 2018 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

63. BEMOBILE LIMITED

63.1 INTRODUCTION

63.1.1 Legislation

The Company was incorporated under the *Companies Act* on 4 March 2008. As a result of PNG Government deregulating mobile telephony, Telikom PNG through its mobile arm/service invested in Bemobile Limited partnering with a group of investors who owned 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, Kumul Consolidated Holdings (KCH) bought off the minority shareholding from Capital Way and Asian Development Bank (ADB) making Bemobile a fully State Owned Enterprise.

63.1.2 Objectives of the Company

The objectives of the Company are to provide excellent mobile voice and data services to the citizens of PNG.

63.1.3 Subsidiary of the Company

The Company has a subsidiary, *Bemobile (Solomon Islands) Limited*. Comments in relation to this subsidiary are contained in paragraph 63A 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 years ended 31 December 2018 and 2019 were in progress.

63A. BEMOBILE (SOLOMON ISLANDS) LIMITED **(Subsidiary of Bemobile Limited)**

63A.1 INTRODUCTION

63A.1.1 Legislation

The Company was registered under the *Solomon Islands Companies Act* on 26 January 2010 as Bemobile (Solomon Islands) Limited.

The Company is a wholly owned subsidiary of Bemobile Limited.

63A.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.

63A.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 2018 and 2019 were in progress.

64. KUMUL AGRICULTURE LIMITED

64.1 INTRODUCTION

64.1.1 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 was 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 took 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.

64.1.2 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.

64.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

64.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2018 was issued on 24 June 2020. The report contained an Adverse Opinion.

“ADVERSE OPINION

Because of the significance of the matters described in the Basis for Adverse Opinion paragraphs, I have obtained sufficient appropriate audit evidence, and conclude that misstatements, individually or in the aggregate, are both material and pervasive to provide a basis for an adverse opinion on the financial statements of the Kumul Agriculture Limited (KAL) for the year ended 31 December 2018.

BASIS FOR ADVERSE OPINION**Cash and Cash Equivalent – K1,677,826**

My request for independent confirmation of the bank balances as at 31 December 2018 from the respective banks were not provided for my verification. Accordingly, I could not satisfy myself as to whether all the bank accounts and interest bearing deposits (IBDs) balances were completely and accurately taken up and disclosed in the financial statements as at the year end.

GST Receivables – K416,470

Note 12 to the financial statements included GST receivables of K416,470 as at the year end. No statement from the Internal Revenue Commission (IRC) was provided for my review. Also, reconciliation between the general ledger balance and IRC statement was not prepared. As a result, I was unable to satisfy myself as to the completeness, accuracy and recoverability of the GST receivables amount reported as at 31 December 2018.

Investment in Joint Arrangements – K24,100,000

The Company's total *Investment in Joint Arrangements* reported at K24,100,000 in the Statement of Financial Position was based on values provided by Kumul Consolidated Holdings (KCH). *Note 14* to the financial statements disclosed Central Dairy Ltd and Sepik Agro Industries Ltd being the *Joint Venture* companies in which KAL holds joint interest.

However, audited financial statements of the *Joint Ventures* companies were not available for my review. Accordingly, I was not able to determine the appropriateness of the measurement and valuation recorded in the financial statements as at 31 December 2018, and related impacts this might have on the operating results and cash flows of the Company for the year ended 31 December 2018.

Investment in and Consolidation of Subsidiaries – K16,011,430

The Company's total *Investment in Subsidiaries* reported at K16,011,430 in the Statement of Financial Position was based on values provided by Kumul Consolidated

Holdings (KCH). *Note 15* to the financial statements disclosed Dylup Estates and Cape Rodney Rubber Ltd being the subsidiary companies of KAL.

However, the audited financial statements of the subsidiaries were not available for my review. As such, the Group accounts had not been consolidated as required by the *International Financial Reporting Standard (IFRS) 10*. Consequently, I was unable to determine the impacts the consolidation of the Group accounts might have on the Statement of Financial Position and operating result and cash flows of the Company for the year ended 31 December 2018.

Accounting for Biological Assets

I noted that KAL made no consideration of its biological assets including bearer plants and livestock. KAL as an agriculture focussed entity dealing with livestock and crops and their valuations requires compliance with *International Accounting Standards (IAS) 41, Biological Assets* for their accounting treatments. The biological assets were neither reported nor disclosed which is a departure from the requirements under the *IAS 41* and promotes the financial statements as incomplete.

Work In Progress – K1,251,631

Note 16 to the financial statement included Work in Progress (WIP) at a value of K1,251,631. I could not obtain all the relevant supporting documentations including project work plans, report on conduct of project feasibility studies, project budget, and monitoring and evaluation reports on the respective agriculture projects in progress. In addition, I noted the following:

- K369,487 was paid to Arokara Coffee Limited being payment for coffee rehabilitation project. However, there was no agreement available for my review to ensure legitimacy of the payment or to examine the economic benefits KAL expects to realise in future;
- A land identified as Nadzab Portion #2 in Lae was recorded at K420,000 while the settlement statement provided indicated its valuation at K900,000 with K475,000 paid to date. I also noted that there was no existence of legal sale and purchase agreement. Further, a valid title was not available for my verification; and
- Solomon Tropical Products Oil Ltd was paid K107,824 as consideration for Coconut Oil Crushing Mill sets. Documentary trail of the transactions indicated that this payment was made based on pro-forma invoice of US\$31,000. An amount of K30,000 was paid to Commodity Management Partners Limited (CMPL), a Company owned by the Chief Executive Officer (CEO). Subsequently, CMPL reimbursed K19,623 to KAL and the balance of K10,377 was transferred to the personal bank account of the owner of the company (CMPL).

Due to the shortcomings and discrepancies noted above, I was unable to comment on the completeness, accuracy and soundness of the work in progress and whether the agriculture project related expenditures were properly procured in the best interest of the Company.

Group Tax (Salary and Wages Tax) – K445,991

Note 17 to the financial statements included Group Tax payables at a value of K445,991 as at the year end. No statement from the Internal Revenue Commission (IRC) was provided for my review. Also, reconciliation between the general ledger balance and IRC statement was not prepared. As such, I was unable to comment on the completeness, accuracy, and validity of the Group Tax payables balance reported in the financial statements as at 31 December 2018.

Operating Expenditures – K8,004,796

I was unable to obtain sufficient and appropriate audit evidence to ensure validity and appropriateness of the payments made under the following expenditure items:

- **Personnel Expenses** – *Note 5* to the financial statements disclosed personnel expenses at K4,302,764. The amount comprised of costs of executives valued K2,657,571 or 62% of the total payroll costs. I was not provided the necessary documents including employment contract of the executive managements for verifying the validity and appropriateness of the payments;
- **Consultancy Fees** – *Note 6* to the financial statements disclosed consultancy fees at K1,931,743. I was not provided the necessary documents including consultancy agreements for verifying the validity and appropriateness of the payments; and
- **Board Expenses** - *Note 10* to the financial statements disclosed Board meeting expenses at K469,373. I was not provided the necessary documents including Gazettal Notice approving appointment of the Board members or letters of appointment of the Directors setting out terms and conditions for payment of their stipends and sitting allowances.

Due to the lack of documentary evidences and discrepancies noted above, I was unable to comment on the completeness and accuracy of the total operational expenditure amount of K8,004,796 as reported in the financial statements for the year ended 31 December 2018.”

64.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2018 was issued on 24 June 2020. The report contained the following observations:

Annual Budget and Business Plans

The Company had no budget for the year under review to manage its income and expenditures. The State provided K10 million to finance the commencement of KAL's operations during the year. In addition, KCH paid a management fee of K771,402 and a further K159,083 was generated internally through sale of crops. Hence, total funds available to KAL was K10.93 million. Out of the total available funds, K9,270,549 was spent during the year without a budget.

I advised the management to formulate business plan and annual budget for approval by the Board. The management responded as follows:

"We agree NPMA as a start-up company did not have business plan and budget during the period as the previous management did not understand the reason for its existence. In 2019, current management formulated a five-year strategic business plan and budget approved by the Board to guide management and ensure the company expends management time and other resources effectively and efficiently in the pursuit of its business goals."

Board Papers

The Board of KAL held two (2) meetings during the year. Although minutes of the meetings were kept, supporting board papers including financial reports, CEO's reports, risk assessment reports and business strategy papers were not provided for my review.

I advised the management that the Board members should receive well-documented board papers to allow them opportunities to read through and be informed of the state of affairs of the business in order for them to discharge their responsibilities with due care, skill and diligence. The management's respond was as quoted:

"The Company's corporate governance structure has been reviewed, and the roles and functions of the Board and of management are now clearly established. The Board is now approving all organisational structures, policies and procedures and management presents regular board meetings proposals for investments, projects, engagement of advisers etc. with suitable cost/benefit analysis, options, analysis and assessments for the boards' independent review and consideration."

Delegation of Authority

KAL had no documented Delegation of Financial Authorities during the year under review. As there was no clearly defined financial authority limit, the CEO alone had the overwhelming financial authority to pre-commit. As a result, transactions worth K10,027,251 were approved by the CEO with insufficient source documents being retained to support those payments.

I recommended KAL to document and implement a Delegation of Authority as a matter of urgency to ensure the CEO, Executives and Staff perform their responsibilities within the limit of authority delegated to them.

The management responded as follows:

“In 2019 KAL received a documented Delegation of Authorities from Kumul Consolidated Holdings whereby our Board and the Chief Executives and Staff to comply with.”

Segregation of Duties

I noted that there was a lack of segregation of duties during the year under review. The CEO had been instructing staff in his comfort to take actions on various transactions which needed participation of different officers. Some of the activities performed which required segregation of duties included, recruitment of staff and executives, execution of consultancy contracts, conduct of project investigations and approval of payments.

I recommended the management to institute segregation of duties within all of its operations to strengthen the internal control function and assist management to ensure the management of the business with a framework and sound controls. The management responded as quoted below:

“Current management has instituted segregation of duties within all of its operations to strengthen the internal control function and avoid failures of the past.”

Procurement Processes

I noted that KAL had not implemented the standard “value for money” procurement process. Accordingly, a significant number of payments were made under the CEO’s instructions and directives. I recommended the management to implement procurement policies and procedures to ensure purchase of goods and services are of value for money and to avoid wasteful uneconomical expenditure. The management responded as follows:

“The internal control environment over procurement process including obtaining quote, raising purchase requisition form, raising of payment requisition form, approvals for payments, signing of cheque, cashing and dispatching cash and recording processes has been reviewed and improved.

Management has drafted (WIP stage) a procurement policy and procedures to ensure procurement process results in value for money purchase of goods and services to avoid the risks.”

Principal Activities of KAL

My review of the NEC decision to establish KAL revealed that the objectives of the company are to pursue large scale agriculture projects. However, the expenditure incurred by the company during the year indicated the entity pursued a wide range of *small-scale projects* which did not satisfy the definition of large-scale project. I advised the Company to develop a practical strategic plan that aligns with its corporate objectives and enforce focused operations towards achievement of the corporate objectives. Expenditures incurred on small-scale projects included:

Project Description	Amount (K)
Arakara Plantation – Rehabilitation	396,487
Mount Hagen Agriculture College-Coffee Nursery	107,824
MJ & RM Martin @ Cape Rodney Buying Rubber	48,980
Aroma Coconut Processing Facility	45,000
Coffee Nursery in Lae	20,000
Mt Hagen Coffee Fertilizer	15,000
Aran Moringa Plantation	10,000
Baiyer River Project	2,000
Coldbran Plantation	2,426
Total Projects	620,717

Other Anomalies on Purchase, Usage and Register of Motor Vehicles

I noted a motor vehicle with a cost value of K100,000 was recorded in the asset register of KAL. However, the vehicle was registered in the name of Commodity Management Partners Limited (CMPL), a company owned by the CEO.

In another instance, on 12 November 2018 KAL purchased a motor vehicle at a cost of K75,000 from CMPL. Initially, the vehicle had been hired from CMPL for the CEO's use for a period of 10 months with a monthly rental payment totalled K86,013. In fact, KAL paid a total of K151,013 (K75,000 + K86,013) to CMPL.

Payroll Procedures and Processing

I noted that the payroll of KAL was prepared by the National Development Bank (NDB) who then provided journal entries to KAL for recording in its books. The details of the staff, hours they worked and approval for payroll processing were not supervised by KAL. I noted staff costs in 2018 was K4,345,857 which was 43% of the K10 million funding provided by the State. Further, management were not able to provide the summary of pay run and or pay details for the 26 pay periods to support the amounts recorded in the books of KAL.

I advised the management that initial timesheets should be reviewed and approved by KAL managers prior to submission for processing. The 26 pay run summaries must be supported with timesheets that can validate the amount taken up in the books of KAL. The management responded as quoted below:

“The payroll timesheets were approved by MD prior to submission for processing to NDB payroll. In 2019, KAL has set up its own payroll system and we are able to monitor, control and ensure that staff are contributing fairly and honestly to the business and operations of the Company.”

Costs of Duty Travels

My review of the duty travels associated with investigation of various potential agricultural projects revealed that a total of K770,062 or 8% of the K10 million State grant given to the Company was spent on travel itineraries, allowances, hire cars and accommodations as details:

Travel Cost Description	Amount (K)
Domestic travel	278,109
Hire cars	197,204
Overseas travel	139,276
Hotel accommodation and meals	99,990
Travel allowances	31,631
Board travel	23,852
Total travel costs	770,062

I noted that KAL had no approved business plan or budget for 2018, and no project documentation and reports including feasibility studies or situational analysis for the projects investigated.

I recommended the management to have a policy on duty travel that requires a business justification and approval. Such travel costs should be included in the organizational budget and monitored on a monthly basis. The management responded as follows:

“Current management has instituted (WIP stage) a policy for travel and accommodation to address the risks and manage the process.”

64.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2019 was in progress.

65. KUMUL PETROLEUM HOLDINGS LIMITED

65.1 INTRODUCTION

65.1.1 Legislation

In accordance with *NEC Decision No. 108/2011* dated 7 July 2011, the Company was established and incorporated under the *Companies Act* on 4 March 2014 as NPCP Holdings Limited. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Act 2015* the issued shares of the previously owned by Independent Public Business Corporation (IPBC) now Kumul Consolidated Holdings 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.

65.1.2 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*.

65.1.3 Subsidiaries of the Company

The Subsidiaries of 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 65A to 65Q of this Report.

65.2 AUDIT OBSERVATIONS

65.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2018 was issued on 25 November 2019. The report did not contain any qualification.

65.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2019 was in progress.

65A. EDA OIL LIMITED

(Subsidiary of Kumul Petroleum Holdings Limited)

65A.1 INTRODUCTION

65A.1.1 Legislation

Eda Oil Limited was incorporated under the *Companies Act*. At the time, the Company has two (2) shares owned by Petromin PNG Holdings Limited. As a result of the enactment of the *Kumul Petroleum Holdings Limited Authorisation Bill 2015*, Eda Oil Limited together with 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 Multi Unit Operator Alliance (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.

65A.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.

65A.2 AUDIT OBSERVATIONS

65A.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 2017 and 2018 were issued on 25 November 2019. The reports did not contain any qualification.

65A.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 2019 was in progress.

65B. KUMUL EXPLORATION (ASIA) LIMITED **(Subsidiary of Kumul Petroleum Holdings Limited)**

65B.1 INTRODUCTION

65B.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.

65B.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).

65B.2 AUDIT OBSERVATIONS

65B.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 2018 was issued on 17 January 2020. The report did not contain any qualification.

65B.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 2019 was in progress.

65C. KUMUL GAS FORELAND 239 B.V **(Subsidiary of Kumul Petroleum Holdings Limited)**

65C.1 INTRODUCTION

65C.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.

65C.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.

65C.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, 2018 and 2019 for my inspection and audit.

65D. KUMUL GAS FORELAND 261 B.V **(Subsidiary of Kumul Petroleum Holdings Limited)**

65D.1 INTRODUCTION

65D.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.

65D.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 these in the broadest sense.

65D.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, 2018 and 2019 for my inspection and audit.

65E. KUMUL GAS FORELAND 268 B.V **(Subsidiary of Kumul Petroleum Holdings Limited)**

65E.1 INTRODUCTION

65E.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.

65E.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.

65E.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, 2018 and 2019 for my inspection and audit.

65F. KUMUL GAS FORELAND 269 B.V **(Subsidiary of Kumul Petroleum Holdings Limited)**

65F.1 INTRODUCTION

65F.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.

65F.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.

65F.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, 2018 and 2019 for my inspection and audit.

65G. KUMUL GAS NIUGINI B.V **(Subsidiary of Kumul Petroleum Holdings Limited)**

65G.1 INTRODUCTION

65G.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.

65G.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.

65G.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, 2018 and 2019 for my inspection and audit.

65H. KUMUL LENDING CO PTE LIMITED **(Subsidiary of Kumul Petroleum Holdings Limited)**

65H.1 INTRODUCTION

65H.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.

65H.1.2 Objective of the Company

The key objective of the Company is to undertake fund management activities.

65H.2 AUDIT OBSERVATIONS

65H.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 2018 was issued on 17 January 2020. The report did not contain any qualification.

65H.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 2019 was in progress.

65I. KUMUL LNG LIMITED

(Subsidiary of Kumul Petroleum Holdings Limited)

65I.1 INTRODUCTION

65I.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.

65I.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.

65I.2 AUDIT OBSERVATIONS

65I.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 2017 and 2018 were issued on 25 November 2019. The reports did not contain any qualification.

65I.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 2019 was in progress.

65J. KUMUL PETROLEUM (DEVELOPMENT) LIMITED **(Subsidiary of Kumul Petroleum Holdings Limited)**

65J.1 INTRODUCTION

65J.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.

65J.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.

65J.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 2017 and 2018 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 2019 was in progress.

65K. KUMUL PETROLEUM (INVESTMENTS) LIMITED **(Subsidiary of Kumul Petroleum Holdings Limited)**

65K.1 INTRODUCTION

65K.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.

65K.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.

65K.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 2017 and 2018 had been completed and results were being evaluated awaiting signed financial statements and a number of documents in relation to UBS loan and disposal of Oil Search Limited (OSL) shares in 2018.

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 2019 was in progress.

65L. KUMUL PETROLEUM (KROTON) LIMITED **(Subsidiary of Kumul Petroleum Holdings Limited)**

65L.1 INTRODUCTION

65L1.1 Legislation

This Company was incorporated under the *Companies Act* and was acquired by the Independent Public Business Corporation (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.

65L.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.

65L.2 AUDIT OBSERVATIONS

65L.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 2018 was issued on 11 September 2019. The report did not contain any qualification.

65L.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 2019 was in progress.

65M. KUMUL PETROLEUM (PIPELINE) LIMITED **(Subsidiary of Kumul Petroleum Holdings Limited)**

65M.1 INTRODUCTION

65M.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.

65M.1.2 Objective of the Company

The Company holds the interest of Kumul Petroleum Holdings Limited in the Western Pipeline (Strategic Pipeline) Project.

65M.2 AUDIT OBSERVATIONS

65M.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 15 June 2020. The reports did not contain any qualification.

65M.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 2019 was in progress.

65N. KUMUL PETROLEUM (TECH & ADVISORY) LIMITED **(Subsidiary of Kumul Petroleum Holdings Limited)**

65N.1 INTRODUCTION

65N.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).

65N.1.2 Objective of the Company

The principal objective of the Company is to provide professional and other business services.

65N.2 AUDIT OBSERVATION

65N.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 15 June 2020. The reports did not contain any qualification. However, the reports contained similar Emphasis of Matter, hence, only the 2018 matter is reproduced as follows:

“EMPHASIS OF MATTER

Investment in Orion Enga Children's Fund JV Limited

Kumul Petroleum (Tech & Advisory) Limited invested US\$3,803,190 to hold 12.5% of the ordinary shares (25 Ordinary Shares of the total 200 Shares) in Orion Enga Children's Fund JV Limited. However, the other shareholders of the investee company did not contribute appropriate capital amount towards the shareholding they have in the company.

Further, at the date of this report no audited financial statements of the investee company was available for my determination to evaluate the financial aspects of the company for the years 2015 to 2018. When I raised my concern with the management, they impaired the whole investment for the year ended 31 December 2016. I noted that the Board approval granted for investment in the Orion Enga Children's Fund Limited was done without any due diligence report."

65N.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 2019 was in progress.

650. KUMUL PETROLEUM MARKETING PTE LIMITED **(Subsidiary of Kumul Petroleum Holdings Limited)**

650.1 INTRODUCTION

650.1.1 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.

650.1.2 Objective of the Company

The Company is to be engaged in the Marketing of Liquefied Natural Gas, Condensate and other related products.

650.2 AUDIT OBSERVATIONS

650.2.1 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 2018 was issued on 17 January 2020. The report did not contain any qualification.

650.3 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 2019 was in progress.

65P. KUMUL SECURITY AGENT LIMITED **(Subsidiary of Kumul Petroleum Holdings Limited)**

65P.1 INTRODUCTION

65P.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.

65P.1.2 Objective of the Company

The key objective of the Company is to undertake fund management activities.

65P.2 AUDIT OBSERVATIONS

65P.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 2018 was issued on 17 January 2020. The report did not contain any qualification.

65P.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 2019 was in progress.

65Q. NPCP OIL COMPANY PTY LIMITED **(Subsidiary of Kumul Petroleum Holdings Limited)**

65Q.1 INTRODUCTION

65Q.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.

65Q.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.

65Q.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, 2018 and 2019 were in progress.

66. LIVESTOCK DEVELOPMENT CORPORATION LIMITED

66.1 INTRODUCTION

66.1.1 Legislation

The Livestock Development Corporation Limited was incorporated under the *Companies Act*. The share capital is wholly owned by the National Government.

66.1.2 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.

66.2 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 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 had been completed and the results were being evaluated and 2018 audit was in progress.

The Corporation had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

67. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED

67.1 INTRODUCTION

67.1.1 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.

67.1.2 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.

67.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

67.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2016 was issued on 27 April 2020. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- (a) the financial statements of the Company for the year ended 31 December 2016:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *Companies Act*, *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.
- (b) proper accounting records have been kept by the Company, as far as it appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Opening Balances

My report on the Company's consolidated financial statements for the year ended 31 December 2015 was a disclaimer of opinion. I was not able to perform audit procedures to satisfy myself to obtain reasonable assurance as to the accuracy and completeness of the opening balances for both the Company and the Group.

Since these opening balances entered into the determination of the financial performance and cash flows of the Company and the Group in 2016, I was unable to determine whether adjustments to the results of operations, cash flows and changes in equity might have been necessary for the year ended 31 December 2016.

Investments

Note 12 to the financial statements disclosed total investments at K228.23 million (Group) and K44.12 million (Company) as at 31 December 2016. My review of the Company's investments revealed the following:

(a) *Investment in Ramu Nickel JV*

Included in the Investments balance is K184.102 million (Group) relating to the Group's interest in the Ramu Nickel Joint Venture. This balance was determined based on an impairment assessment performed by management on 31 December 2015 closing balance of K406.165 million. The Group's liabilities include a carry liability of K305.33 million in relation to the financing of the Groups interest in the Ramu Nickel Joint Venture. Further, the Group's statement of changes in equity for the year ended 31 December 2016 includes an amount of K108.566 million recorded directly to retained earnings as prior year adjustment which incorporates adjustments to the prior year balance for both the investment in Ramu Nickel Joint Venture and the carrying liability. I was not provided with sufficient and appropriate evidence to support the opening balance of the investment at 1 January 2016 and as a result, I have been unable to conclude on the accuracy of the amounts recorded in the statement of comprehensive income and statement of changes in equity during the year in respect of these balances. I also noted that the amount determined by management to be a prior year adjustment has been recorded directly to retained earnings in the current year, however, it should have been treated as a restatement of the prior year financial statements.

(b) Investment in Pacific International Hospital (PIH)

K7.42 million (Group and Company) relates to investment in Pacific International Hospital. The investment has been classified under assets available for sale and in accordance with the Company's accounting policy, this should be carried at fair value, however, a valuation of the investment at 31 December 2016 was not performed and the investment has been recorded at cost in the financial statements. 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 investment in PIH for the year reported in the statements of comprehensive income and the investment balance reported in the financial position.

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 disclosed in *Note 8* to the financial statements.”

67.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2016 was issued on 27 April 2020. The report contained the following observations:

Non-Disclosure of Directors Remuneration and Staff Salary for the year

During my review, I noted that the directors' fees has increased by K1,056,334 (136%) to K1,833,840 from K777,505 in 2015. I further noted that the Company discontinue to disclose the total stipends paid to its Directors and the remuneration and allowances paid to the management staff whose total salary exceeds K100,000 per annum as required under *Section 212 (f) and (g)* of the *Companies Act*. However, I was not provided with the details of stipends paid to the seven (7) Non-Executive directors of which two (2) were Government Departmental Heads or the shareholders resolution made available for my determination at the time of this report. As a result, I was unable to verify and conclude on the appropriateness and validity of the stipends paid and whether the Company has complied with the *Companies Act*.

Overseas Travel Expenses

In 2016, the Company's business travel expense amounted to K2,217,210 compared to K303,652 in 2015, a substantial increase of K1,913,557. During my review, I was not provided with the listing of all the overseas travels to determine the validity and purpose. As a result, I am not able to comment whether the trips were intended for and beneficial to the Company.

Insurance Premium

In 2016, K1,965,000 was paid as insurance premium by the Company. That was K1,700,000 more than the insurance premium paid for 2015 at a value of K265,000. However, I was not provided with appropriate explanation and basis for the six (6) fold increase in the insurance premium.

Overseas Investments

Note 12(c)(ii) to the financial statements disclosed investments made by the Mineral Resources Development Company in Taumeasina Resort (Samoa) for 25% share worth K19.347 million in 2016. The current value of this investment was nil after loss on acquisition of K1.460 million, impairment loss of K15.488 million and loss for the current year amounting to K2.399 million were considered.

In summary, the Company has made two overseas investments in the past few years and most of these investments so far has not produced any benefit to the Company or State but incurring losses due to impairments of assets caused by the reduction in the value of the investment. This is a concern the management and Board of Directors has to review and act in the best interest of the stakeholders.

Loan to PNG Air Limited

The financial statements include K14 million as receivables from PNG Air Limited. During my review, I was advised by the management that the amount relates to an advance made to APNG towards working capital requirements and that PNG Air Limited would issue additional equity to MRDC. However, at the date of this report, no shares were issued to the Company.

67.3 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 Company had not submitted its financial statements for the years ended 31 December 2018 and 2019 for my inspection and audit.

68. MOTOR VEHICLES INSURANCE LIMITED

68.1 INTRODUCTION

68.1.1 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.

68.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

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 2019 was issued on 30 June 2020. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- (a) the financial statements of Motor Vehicles Insurance Limited for the year ended 31 December, 2019:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *Companies Act, International Financial Reporting Standards (IFRS)* and other generally accepted accounting practice in Papua New Guinea.
- (b) proper accounting records have been kept by the Company, as far as it appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Non-Consolidation of Subsidiaries

Note 15(iii) to the financial statements disclosed Investment in Subsidiaries as K84,717,507 (2018: 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 2019 exceeded 50% therefore, consolidation of the financial statements for the group is necessary as required by *IFRS 10, Consolidated 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 *IFRS 10*.

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 K67 million (2018: K56,239,487) as investment in its subsidiary Pacific MMI Limited as at 31 December 2019. This carrying amount is higher than the unaudited investee's net assets by K14,000,000 (2018: K45,000,000). There was no valuation of the investments done by the management during the year to determine whether any impairment would have occurred on its investments. Therefore, I was unable to determine whether the investment taken up under subsidiaries was appropriate. Consequently, the Company did not make necessary provision for the impairment by which it has not complied with *IAS 36, Impairment of Assets*."

68.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2019 was issued on 30 June 2020. The report contained the following observations:

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:

	Per Notification Policy	At 31-12-2019
Government securities	15-25%	8.95%
Term Deposits	20-30%	0.05%
Commercial Equities	25-35%	74.0%
Property	20-30%	-
Long Term Development	10-20%	2.0%
Loans/Debentures	-	-
Subsidiaries	Nil	15.0%

From the information obtained above, 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 as at 31 December 2019, hence, MVIL has not complied with the investment policy.

I brought this matter to the attention of management in 2014 and management since responded that, “*the 50% of the shares in Pacific MMI going to be disinvest to prospective buyer.*” However, to date the investment has not been disinvested as responded earlier.

Salary Sacrifice

During my review, I kept noting that staff salary sacrifices were paid to tertiary institutions and continue to remind management of the requirements under *Taxation Circular TC2016/1* containing salary sacrifice arrangement. The payment of school fees by salary sacrifice covers up to Grade 12. Hence, school fee payment to tertiary institutions through salary sacrifice is outside of the *Taxation Circular TC2016/1* and *Section 29(1)(i)* of the *Income Tax Act 1959*. I brought this matter to the attention of management and recommended that salary sacrifices paid to tertiary institutions and colleges should be taxed and processed through payroll. Management since responded as follows:

“noted and agreed. We have implemented in 2020.”

Fair Value of Unquoted Shares

I noted that MVIL has unquoted share investments totalled K18 million in Westpac and Pacific International Hospital. However, these investments were not valued during the year as requires by *International Financial Reporting Standards* to determine fair value of unquoted shares each year.

I brought this recurring issue to the attention of management and recommended for valuation of these investments within the next 12 months. Management since responded that:

“noted and agreed on recommendations. We have engage a consulting investment analyst to manage valuations.”

Information Technology (IT) System

My review revealed that the IT policy and procedure manual has not yet been formulated by the Company. As a result, there exists high risks in the IT control environment. I brought this issue to the attention of management and recommended for development of IT Policy Procedure Manual and enforce immediate implementation. Management concurred with my recommendation and advised that the policy and procedure manual is being implemented in 2020.

69. NATIONAL AIRPORTS CORPORATION LIMITED

69.1 INTRODUCTION

69.1.1 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.

69.1.2 Functions of the Corporation

The functions of the National Airports Corporation Limited are derived from *Section 132* of the *Civil Aviation Act*.

69.1.3 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 69A and 69B of this Report.

69.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

69A. AIRPORT CITY DEVELOPMENT LIMITED **(Subsidiary of National Airports Corporation Limited)**

69A.1 INTRODUCTION

69A.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.

69A.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.

69A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

69B. AIRPORTS INVESTMENTS LIMITED **(Subsidiary of National Airports Corporation Limited)**

69B.1 INTRODUCTION

69B.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*, and later changed its name to Airports Investments Limited on 27 April 2015. The operations of the Company commenced on 1 January 2016.

69B.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.

69B.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.

69B.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 2019 was in progress.

70. NCD WATER AND SEWERAGE LIMITED (Trading as Eda Ranu)

70.1 INTRODUCTION

70.1.1 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.

70.1.2 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.

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 inspection and audit of the accounts and records of the Company for the years ended 31 December 2015 and 2016 were issued on 23 October 2019 and 18 May 2020 respectively. The reports contained similar Qualified Opinions, hence only the 2016 report is reproduced.

“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 of NCD Water and Sewerage Limited (Eda Ranu) for the year ended 31 December 2016:
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *Companies Act*, *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.
- (b) proper accounting records have been kept by the Company, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Opening Balance

My report on the financial statements of the Company for the year ended 31 December 2015 was a qualified opinion in respect to capital grants, provision for doubtful debts, accrued expenses and inventory stock. I was unable to quantify the effects of such material misstatements of the opening balances of the above mentioned accounts that might have a bearing on the balances reported in the 2016 financial statements. Within the scope of my engagement, I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balance or comparatives presented. Any adjustment that might be found 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.

Trade Receivables and Revenue – K54,249,743

The Company reported Trade Receivables of K54,249,743 as at 31 December 2016. I noted that a third party contractor on behalf of the Company performed billing of sales and collection of sales revenue with collection summary and associated payment provided to the Company at each month end. However, I was unable to perform any tests on the sales and revenue functions performed by the third party service provider that gave rise to the trade receivables balance. Consequently, I was unable to satisfy myself as to the assertions of completeness, existence, accuracy and valuation of these balances.

Inventory Stock Taking – K5,825,486

My review noted that the Inventories of the Company was disclosed at K5,825,486 in the statement of financial position. However, I was not present to witness the physical count conducted to ensure accuracy and validation of the inventories quantities. Further, my review on the stock count conducted by the Company revealed discrepancies existed between the stock quantities in the Company's records and the quantities recorded from physical stock count. As a result, I was unable to confirm the accuracy and valuation of stock balance reported as at 31 December 2016."

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 2015 and 2016 were issued on 23 October 2019 and 18 May 2020 respectively. The reports contained similar observations, hence, only the 2016 report is reproduced.

Annual Tax Returns

My review of the Company's various taxes as at 31 December 2016 revealed the following issues:

- Last income tax return lodged with the IRC has been for the year ended 31 December 2012;
- Corporate income tax filing since 2013 financial year has not been done;
- Of the total Business withholding taxes liability of K2,304,642 as at 31 December 2016, a total of K2,283,023 pertains to 2015 and prior years; and
- Tax on Staff allowances payable includes a balance of K1,911,248 relating to 2015 and prior year.

The late lodgment of tax returns and the accompanying payments in a timely manner with the IRC will result in the imposition of significant penalties. The penalties include a flat rate of 20% charge on the amounts outstanding and a further 20% per annum on the amounts outstanding from the date when the taxes first become due. I raised these issues to the attention of the management and management responded as follows:

- *"The tax status of the Company is regularly reported in the Monthly Management Reports and to the Board during Board Meetings. Same is also reported to our shareholders during the quarterly reviews.*
- *Corporate Income Tax (CIT) filed for 2013 on 20/2/2018, 2014 on 16/3/2018, 2015 on 26/6/2018, 2016 on 20/12/2018 and 2017 on 6/3/2020. 2018 is in WIP.*
- *Due to significant tax liability, management negotiated an installment payment arrangement with IRC and based on this all o/s taxes for SWWT brought to current status. We will continue to adhere to the arrangement for GST outstanding (Budgeted K1.2 million per month based on government payment)."*

Availability and Reliability of Relevant Data provided by JCKRTA

The Company's revenue billing and collection function was contracted to JCKRTA Consulting under a Consumer Service Agreement dated 23 June 1997. Accordingly, revenue, trade receivables and customer data are kept by JCKRTA and on a monthly basis it provides a statement to the Company which is used as a source document for recording the amount of revenue and trade receivables. Since revenue and receivables are key financial data of the Company, I was not provided with relevant documents and information by both the finance team of the Company and the JCKRTA for me to verify the balances. The Company must comply with the *Companies Act* to maintain records of key financial data, and where third parties are contracted to perform key functions as part of contractual obligations, the Company must secure right of audit, access to records and reliable and relevant reports. I brought this issue up and management responded as follows:

“The Build Operate and Transfer (BOT) agreement was signed in 1996 which the current management had no role. We however, agree with the auditor’s points, and going forward we will ensure that any contractual obligations or conditions are properly captured in future agreements through our legal team or consultants.”

Doubtful Debt Provisioning

The Company has a current practice of making monthly provisions for doubtful debt of K83,333 to K1,000,000 annually. As at 31 December 2016, the total doubtful debt provision amounted to K6,840,605 of which 14% represented the total trade receivables of the Company.

However, during my review I noted that there is neither a formal policy nor explanation for the basis of the current practice of doubtful debt provisioning. The quantum of bad debt provision is a direct result of credit policy and practices maintained by an entity. Effective credit management result in less general provisions as specific circumstances of an account is understood and bad debts are easily established. Thus, the general provisions as maintained by the Company, is likely to misstate the true circumstance of debtors and therefore affects the receivables and results reported. I recommended the management to adopt a policy on doubtful debt provision and write-off which should align to the *IFRS 9, Financial Instrument (Impairment)* and the management responded as follows:

“For the year in audit our BOT partners – JCKRTA, control the credit management. We agree that a proper policy document is required in the Company to manage credit and accounts receivable (AR) functions. And such a policy will be aligned with IFRS 9 in future. For starters management is developing an AR or CREDIT standard operating procedures (SOPs) which would create the basis for credit and write off policies.”

Inventory Management System

My review of the internal controls in the inventory management system and the internal audit report of the Company noted that there were issues on the inventory management system that needed immediate action by the management. The inventory of the Company is composed of materials needed for installation, repairs and maintenance of water and sewerage services. The issues noted are enumerated below:

- Challenge on migrating inventory data in the new accounting system (TechOne);
- Inadequate physical storage area which leads to spoilage for items stored in uncovered area;
- Safeguard and security of inventory items, especially those high valued items;
- Weak controls on the inventory process leading to unauthorised issuance; and
- Unmonitored obsolete stocks.

In addition, the issues identified in the internal audit reports showed control weaknesses and therefore create an environment for abuse that may cause the Company losses. Consequently, I was unable to comment on the efficiency and effectiveness of the controls surrounding the management of the stock.

Valuation of Land

The Company accounts for the land assets at fair or market value. The last market valuation of these properties was carried out in 25 September 2013 and no subsequent valuation exercise was performed thereon. The last market valuation may not be reflective of the current market value of the property as at 31 December 2016. While there is no explicit mention of the regularity of valuation in the accounting standards, the timing of valuation should be sufficient and timely enough to reflect the fair value of the property at any given reporting date. I recommended the management to assess the necessity for every property to be updated with its market valuation through property appraisal.

Annual and Long Service Leave

The Company policy on the annual and long service leave states that furlough/long service leave is only applicable after fifteen (15) years of service whereby staff may apply for six months leave, and pro-rated accrual on furlough may commence after three (3) years of employment and furlough/long service leave is paid at a rate of nine (9) days per year. However, during my review, I noted the following deviation to the Company's policy:

- There are a number of employees who have exceeded the allowable leaves during the year resulting in a negative balance on the respective calculated leave balance;
- The calculation for annual and long service leaves also included employees who have already resigned;
- New employee salary rates were not used in the calculation of annual and long service leave;
- One employee who worked for the Company less than fifteen (15) years took long service leave; and
- Furlough/Long service leave has been accrued for a number of employees who had less than three (3) years of service.

These had resulted in variances in my calculation against the balance of annual leave and long service leave as at 31 December 2016. I recommended the management to utilise Technology One System and integrate leave calculation. And I strongly encouraged the management to have regular review process of the Company's annual and long service leave provision to ensure completeness, existence and accuracy and management responded as follows:

“Management notes auditor’s views and agree that we will review all long service and annual leave provisions quarterly to monthly. Management noted some issues when we migrated into Techone from Able Payroll, consultant was engaged to fix the issues. Management to stop approving advances against long service leave until staffs qualify (15 years) or upon termination of employment.”

New Accounting Software (TechOne)

The Company uses Enterprise Resource Planning (ERP) accounting software called Technology One. Technology One has series of modules which can cater for finance, budgeting, human resources & payroll, assets management, inventory management and project management to name a few.

My general observations of the system are as follows:

- Relevant modules required such as accounts receivable and sales, inventory management, project management are yet to be installed;
- It appears that the baseline system has been installed without much tailoring to the business requirement of the Company. This is evident from the difficulty in producing basic and standard reports that one would ordinarily expect from an ERP system; and
- No consideration has been given to key stakeholders in the implementation of the ERP system. A properly procured system considers all stakeholders who feed information into or receive information from and allows integration electronically. This improves efficiency and reduces errors associated with manual entries. One such consideration is the integration of the sales and debtors management which has been outsourced to a third party who use their own systems.

Significant investment has occurred in both time and money and it will be difficult to justify limitations in value of the system to the Company. I recommended the management to carry out a Post Implementation Review (PIR) on the Information Technology (IT) system and management took note of my recommendation.

70.3 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 Company had not submitted its financial statements for the years ended 31 December 2018 and 2019 for my inspection and audit.

71. PAPUA NEW GUINEA PORTS CORPORATION LIMITED (Formerly PNG Harbours Limited)

71.1 INTRODUCTION

71.1.1 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.

71.1.2 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.

71.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

71.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2018 was issued on 30 June 2020. The report contained a Qualified Opinion.

“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 of PNG Ports Corporation Limited for the year ended 31 December 2018;
 - (i) give a true and fair view of the financial position and the results of its financial performance and cash flows for the year ended on that date; and
 - (ii) the financial statements have been presented in accordance with the *Companies Act 1997*, *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea.
- (b) proper accounting records have been kept by the Company, as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.

BASIS FOR QUALIFIED OPINION

Port Assets, ADB Loan Liability and State Equity Funding which all related to the Lae Port (Tidal Basin) Development not taken up in the Books, and off the Balance Sheet of the Company

Note 24 (b) to the financial statements disclosed contingent asset and liability at K734 million and K434 million respectively. These balances related to the development of Lae Tidal Basin which were transferred by Kumul Consolidated Holdings (KCH) to the Company. I received written confirmation from KCH that the transfer was done to effect the *National Executive Council (NEC) Decision No: 121/2017* which resolved for transfer of all liabilities incurred on the construction of the Lae Tidal Basin and resulting assets to PNG Ports Corporation Limited.

The Company has been generating income from the improved Lae Port (asset) since the transfer of the completed project facilities in April 2015. However, the Company had not recorded this important revenue generating asset to the value of K734 million, the ADB loan liability of K434 million and the State's equity funding balance of K233 million in its books and reflected in the balance sheet. Instead, the Company opted to disclose as contingent asset and liability. This promotes the financial statements of the Company to be incomplete and is a departure from *IAS 1, Presentation of Financial Statements*.

Consequently, the asset and liability position of the Company could be materially misstated. Should necessary adjustments be initiated, I was unable to quantify the resultant impact that such adjustments might have on the financial position and financial performance of the Company for the year ended 31 December 2018.

Authenticity of Payments made to a Contractor and Valuation of Work in Progress related to Lae Industrial Park Development Project

Note 15(c) to the financial statements disclosed a loan amount of K350 million obtained from Exim Bank of China for design, construction and commercialization of the Western Side of the Lae Tidal Basin into Industrial Real Estate. Out of the loan amount, a total of K133.3 million was drawn between 2017 and 2018 and paid to a contractor engaged for the project. However, I was not provided with sufficient audit evidence including project progressive status report by Project Manager specifying percentage of milestone achieved and instalment payment amount recommended. I applied professional judgement upon inspection of the project site that the level of work done at the site might not worth the K133.3 million paid to the contractor and recorded in the Company's books as Work in Progress (WIP).

Consequently, I was unable to comment on the validity of the payments made to the contractor, nor was I able to ensure accuracy and completeness of the Work in Progress and associated liabilities disclosed in the financial statements as at 31 December 2018."

71.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2018 was issued on 30 June 2020. The report contained the following observations:

Lack of Supporting Documentations to Validate Payments and Valuation of Work Done

My review of the Company's payments during the year revealed an invoice valued at K58,157,498 and paid to a contractor without any support of proper documentary evidences of the work done. This amount was a second payment whilst first payment of K75 million had been made in 2017. As a result, cumulative payments made to that particular contractor up to 31 December 2018 totaled K133.3 million. I applied professional judgement upon inspection of the project site that the level of work done at the site might not worth the K133.3 million paid to the contractor and recorded in the Company's books as Work in Progress (WIP). I raised this issue to the management and management responded as follows:

"A second payment of 15% or K58,157,498 of the sum of the contract was paid consistent with the contract payment schedule."

Payments not Supported with Contract Agreements

The Company engaged various security companies during the year under review. My review of the payments made to the security companies revealed that amounts of K3,523,376 and K1,945,511 were paid to Ranger Protection Limited and Wasman Security Services Limited respectively. However, I was not provided with the contract agreements and all relevant supporting documentations to validate the payments made. As a result, I was not able to substantiate the basis for making the payments, and confirm whether due processes were followed in awarding the contract to the security firms. I raised this issue to the attention of the management and management responded as follows:

"The previous board approved for the service to be continued on a month by month basis until a security firm is contracted through a tender process."

Payments beyond the Approved Contract Value

The Board of the Company approved full development cost of the CRCE Tower Limited – Office Complex at K43.5 million which included GST. However, the contractor considered the development cost of K43.5 million as GST exclusive and had been invoicing the Company with GST again added on. As a result, the Company overpaid a total of K2,667,750 to the contractor. I raised this issue to the attention of the management and management responded as follows:

“The management has sought professional tax and legal advice in which opinion has independently confirmed that no GST should have been charged by the contractor by terms and the legal structure of the agreement. Thus, management has already taken the position that it will deduct the GST overpayment from the final outstanding milestone claims.”

71.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2019 was in progress.

72. PNG AIR SERVICES LIMITED

72.1 INTRODUCTION

72.1.1 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 Papua 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)*.

72.1.2 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.

72.2 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 and subsequent years’ audits. 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, 2018 and 2019 for my inspection and audit.

73. PNG DATACO LIMITED

73.1 INTRODUCTION

73.1.1 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.

73.1.2 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.

73.1.3 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.

73.2 AUDIT OBSERVATIONS

73.2.1 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 20 May 2020. The report contained a Qualified Opinion.

“QUALIFIED OPINION

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

- (a) the financial statements of PNG DataCo 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*, *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.

BASIS FOR QUALIFIED OPINION

The financial statements disclosed that the carrying value of property, plant and equipment was K167.45 million as at 31 December 2016, of which K166.38 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 2016. 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 2016. 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 about the accuracy of the carrying value of the property, plant and equipment as at 31 December 2016 and any impairment loss that might have been 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.

OTHER MATTER

Compliance with Public Finances (Management) Act 1995

The financial statements for the year ended 31 December 2016 was approved and issued on 13 May 2020 and was submitted to my Office. 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.”

73.3 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 had been completed and the results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2018 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

74. PNG POWER LIMITED

74.1 INTRODUCTION

74.1.1 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 items *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 Limited 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), now Kumul Consolidated Holdings 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.

74.1.2 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.

74.2 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 2018 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2019 for my inspection and audit.

75. POST (PNG) LIMITED

75.1 INTRODUCTION

75.1.1 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.

75.1.2 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.

75.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

75.2.1 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 2018 was issued on 16 October 2019. The report did not contain any qualification.

75.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2018 was issued on 16 October 2019. The report contained the following observations:

Stock

I noted that the Company's stock increased over K2 million. My review of this stock revealed that a number of stock were very old but the Company still recognized them as stock. In addition, the Company does not have a standard policy to manage the obsolete and damaged stock. As a result, I was unable to comment on the effectiveness of the controls surrounding the management of the Company's stock.

Internal Audit Report-International Inbound Process

An internal audit conducted into the International Inbound Process at mail cargo at the airport revealed that the International Inbound function was not in compliance with the relevant policies, systems and procedures that were set up to manage it. The report also identified that there are significant delays in the billing of international postal operators which are said to be in millions of kina. I recommended the management to implement the various recommendations specified in the report as a matter of priority and the management responded as follows:

"Management agrees to continue the review of the process of the International Inbound Mail Cargo and will analyze the recommendations by its internal audit department for process improvements and security of mail items."

Provision for Doubtful Debts

As reported in my prior year audit reports, I noted that the Company's debtors remained consistent in the current year by K9.65 million. However, the Company did not adequately provide for the doubtful debts to cover the trade debtors in the event that the debtors become bad. In addition, the process of debt recovery and the staff involved in it were slow. Further, the Company does not have a policy in place to appropriately provide for the doubtful debts and manage the debt recovery/collection process. Consequently, I was unable to comment on the controls surrounding the management of trade debtors and their provision for doubtful debts.

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 2019 was in progress.

76. TELIKOM (PNG) LIMITED

76.1 INTRODUCTION

76.1.1 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.

76.1.2 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.

76.1.3 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 76A, 76B, 76C and 76D of this Report respectively.

76.2 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 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 for the years ended 31 December 2018 and 2019 were in progress.

76A. DATEC (PNG) LIMITED **(A Subsidiary of Telikom (PNG) Limited)**

76A.1 INTRODUCTION

76A.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.

76A.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.

76A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

76A.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 3 March 2020. The report did not contain any qualification.

76A.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2017 was issued on 3 March 2020. The report contained the following observations:

Review and Approval of Manual Journal Entries – Segregation of Duties

My review of the Company's journal entries processed during the year revealed that there was no proper segregation of duties in place in the review and posting of manual journal entries. In order for an internal control to be effective, there should be adequate division of responsibilities among those who perform control activities and those who review such activities. Segregation of duties reduces the risk of error and serves as a deterrent to fraud which could have materially misstate the financial statements.

Accounting for Projects Revenue

The Company recognized the revenue earned from the projects when cash was received instead of when the services were performed. This reflected cash basis of accounting which is not in accordance with the accounting standards and the Company's Accounting Policy of accrual basis.

The Company should account for its project revenue when the services are performed to the customer regardless of when the services have been settled.

Valuation of Foreign Currency Denominated Accounts Payable

My review of the Company's accounts payable balances showed that its foreign currency denominated outstanding invoices were not properly valued at end of year closing rate. Although I had recalculated the appropriate closing rate and concluded that the differences were immaterial, foreign currency denominated account balances in the books must be appropriately revalued to PGK at the end of each month using the prescribed closing rate (e.g BSP) and capture the correct foreign exchange gain or loss in the income statement.

Manual Calculation for Inventory Provisioning

The Company's policy for provision for inventory obsolescence encompasses several criteria. During my review, I noted that one of the criteria was not considered in the calculation of the inventory provision. The lack of proper review of the manual calculation for inventory provision exposes the Company to misstatements and error which may go undetected. I recommended management to consider implementing guidelines for reviewer to ensure the review process is performed with sufficient granularity.

Authorized Bank Signatories

The signatories of the Company's bank accounts were not updated to reflect the current management. Instead the signatories of the former chief executive officer, chief financial officer and finance controller remain listed as part of current officers. This may attract an opportunity of payment that may not be properly authorized by current authorized signatories. I recommended the management to update its roster of bank signatories to reflect the current management.

Proper Use and Monitoring of Goods Received Not Invoiced Account (GRNI)

My review of the GRNI account revealed certain costs in which invoices were already received at balance sheet date but were not properly removed from GRNI listing. In addition, the Company does not maintain a proper reconciliation of GRNI balance which should only show the breakdown of the balance at the end of the year.

I recommended the management to revisit its reconciliation process for GRNI and ensure that is periodically monitored to effectively assist in detecting any unrecorded or overdue GRNI balances which may have materially misstate the financial statements.

Control Findings from Information Technology (IT) Environment

My review of the IT control environment revealed following issues:

- a) Periodic access rights review or recertification for all in-scope application system is yet to be established;
- b) Majority of EZY ISP application users are accorded super admin/power admin access profiles on the system. Review of transactions or activities of super-users for the all in-scope applications are yet to be established;
- c) Undocumented granted of access rights to user excess information within applications and untimely removal of user accounts of terminated employees;
- d) Absence of service level agreements with the software houses may mean that there is no mutually agreed and legally defined basis regarding service quality, deliverables, delivery timelines, priorities and responsibilities between the Company and the software houses;
- e) Periodic backup recovery testings were not performed and back-up tapes were not stored in a secure offsite location. I also noted consistent Pronto tape back-up failures;
- f) Lack of formal password policy and user authentication. No password policy exists to govern password settings. Password configurations are found to be below industry standard especially password length, age, history, complexity and lockout settings. User ID naming convention implemented for user accounts was inconsistent; and
- g) There was no change in management register/monitoring tool in place.

76A.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 2018 and 2019 were in progress.

76B. KALANG ADVERTISING LIMITED **(Subsidiary of Telikom (PNG) Limited)**

76B.1 INTRODUCTION

76B.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.

76B.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.

76B.2 AUDIT OBSERVATIONS

76B.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 2016 was issued on 26 August 2019. The report did not contain any qualification, however, with an emphasis of matter.

“EMPHASIS OF MATTER

Material Uncertainty Related to Going Concern

I draw attention to *Note 1.1* in the financial statements, which indicates that the Company incurred a net loss of K493,055 for the year ended 31 December 2016 and as of that date, the Company’s current liabilities exceeded its current assets by K1,720,508.

These events or conditions, along with other matters set out in *Note 1.1*, 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 may be unable to realize its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial statements."

76B.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, 2018 and 2019 were in progress.

76C. MEDIA NIUGINI LIMITED (EMTV) (A Subsidiary of Telikom (PNG) Limited)

76C.1 INTRODUCTION

76C.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.

76C.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.

76C.2 AUDIT OBSERVATIONS

76C.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 23 October 2019. The report did not contain any qualification, however, an emphasis of matter.

“EMPHASIS OF MATTER**Material Uncertainty Related to Going Concern**

I draw attention to *Note 2* in the financial statements, which indicates that the Company incurred a net loss of K5,690,441 for the year ended 31 December 2017 and as of that date, the Company’s current liabilities exceeded its current assets by K13,678,998. These events or conditions, along with other matters 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 Company may be unable to realize its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial statements.”

76C.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 2018 and 2019 were in progress.

76D. PNG DIRECTORIES LIMITED (Formerly E. H. O'Brien Limited) (Subsidiary of Telikom (PNG) Limited)

76D.1 INTRODUCTION

76D.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%). The Company changed its name to PNG Directories Limited in 2002.

76D.2 AUDIT OBSERVATIONS

76D.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 30 September 2019. The report did not contain any qualification.

76D.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 2018 and 2019 were in progress.

77. WATER PNG LIMITED (Formerly PNG Water Board)

77.1 INTRODUCTION

77.1.1 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.

On 21 January 2017, the *National Water Supply and Sanitation Act 2016* came into effect paving for this utility (Water Supply and Sanitation Services) provider to be corporatised as a Company. As a result, the former Water PNG was abolished and a new company, Water PNG Limited was incorporated on 30 March 2017. Water PNG Limited operates as a company effective from the date of its incorporation.

77.1.2 Functions of Water PNG Limited

The functions of the Company are:

- (a) to provide, design, construct and maintain such water supply systems as may be required for collection, production, supply and use of water for private and public purposes in and for cities, towns and rural areas in accordance with this Act;
- (b) to provide, design, construct and maintain such sanitation systems as may be required in and for the disposal of sewage and wastewater in and for cities, towns and rural areas in accordance with this Act;
- (c) to secure and provide an adequate supply of water in accordance with this Act;
- (d) to manage, operate and maintain water supply systems and sanitation systems owned by the Company and such other installations as maybe erected or constructed by the Company;
- (e) to work with provincial governments and through them, with authorities involved in district administration, and where appropriate with other State-Owned enterprises, to further the objectives of this Act;
- (f) to comply with the *Public Health Act (Chapter 226)*, the consumer protection provisions of the *Independent Consumer and Competition Commission Act 2002* and the *Environment Act 2000*, and to abide by such water quality and sewerage discharge standards as are from time to time in force; and
- (g) generally, to do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

77.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

77.2.1 Comments on Financial Statements

My report in accordance with the *Companies Act* on the Company's financial statements for the period 1 April 2017 to 31 December 2017 was issued on 2 June 2020. The report contained a Disclaimer of Opinion.

“DISCLAIMER OF OPINION

I am unable to express an opinion on the accompanying financial statements of the Company, because of the significance of the matters described in the basis for disclaimer of opinion paragraphs below, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

BASIS FOR DISCLAIMER OF OPINION

Limitation of Scope due to Opening Balances

My audit report for the 15 months period ended 31 March 2017 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 these 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 December 2017.

Current Assets

Note 3 to the financial statements disclosed a total of K7,774,368 as *Other Current Assets*. Of the total, 88% or K6,851,067 could not be confirmed as to the accuracy as I was not provided with the necessary reconciliations, schedules and supporting documentation for my review of the following Other Current Assets account balances:

	Kina
Prepayments	2,516,121
Home Ownership Scheme	247,914
Suspense Account	253,699
Bank Suspense Account	1,480,883
Novated Lease Suspense	151,167
Sundry Debtors	2,120,172
Accrued Income	81,111
TOTAL	6,851,067

As a result, I was unable to obtain sufficient and appropriate audit evidence to ensure the completeness and accuracy of the above balances taken up under *Other Current Assets* as at 31 December 2017.

Current Liabilities

Note 5(b) to the financial statements disclosed total *Other Payables and Accruals* at K19,781,099. Out of the total, I was not provided with the relevant supporting documentations including listings and reconciliations of the following liabilities to a value of K15,592,757 (79%) for my review:

	Kina
Outstanding Accrued Expenses	12,075,605
Business Payment Tax	349,449
Purchase Clearing Account	2,367,021
Interest Withholding Tax	71,640
Contract Retention (Clearing Account)	729,042
TOTAL	15,592,757

Therefore, I was unable to perform my audit procedures to assess the completeness and accuracy of the transactions recorded in the general ledger and the balance presented as current liabilities in the financial statements. Consequently, I am unable to determine the accuracy and completeness of the Current Liabilities taken up in the financial statements for the period ended 31 December 2017.

Deferred Grant - Current

Note 8(a) to the financial statements disclosed *Deferred Grant - Current* at K6,264,697. I was not provided with the relevant supporting documentations including listing and reconciliation for performing my audit procedures to determine the movement and assess the completeness and accuracy of the balance as presented in the financial statements. Consequently, I was unable to determine the accuracy and completeness of the balance of the *Deferred Grant - Current* taken up in the financial statements for the period ended 31 December 2017.

Non- Current Liabilities

Note 6 and 8(b) to the financial statements disclosed *Non-Current Liabilities* totaled K163,891,473 as shown below:

	Kina
Bonds & Refundable Deposits	6,252,767
ADB Loan	104,918,261
Deferred Income	51,238,867
Lease Liability	1,481,578
TOTAL	163,891,473

I was not provided with all the relevant reconciliations, schedules and supporting documentations for my review. Hence, I could not perform the necessary audit procedures to evaluate the balances. Consequently, I was unable to determine the completeness and accuracy of the Non-Current Liabilities taken up in the financial statements for the period ended.

Capital Works-In-Progress

Note 7 to the financial statements included Work-In-Progress (WIP) at K34,756,881. I was not provided with complete listing and status report 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 depreciations charged for the period and possible impacts this might have on the profit and loss account. Consequently, I am unable to comment on the correctness of the value of WIP as at 31 December 2017 and the depreciations charged to the profit and loss account.

Land and Building

Note 7 to financial statements disclosed value of the Land and Building totaling K28,847,391. Of the total, K8,633,734 was pertaining to land and K20,213,656 for the value of buildings. However, listing of the portion of lands and buildings were not provided for my review. In addition, Water PNG does not have the land titles for the portions of land it owns. I was unable to ensure the legal ownership over the land taken up in the books.”

77.2.2 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 Water PNG for the period 1 April 2017 to 31 December 2017 was issued on 3 June 2020. The report contained the following observations:

General Ledger Account Reports

The system generated general ledger transaction reports provided to me were not user-friendly. The format provided did not have details of suppliers, payment reference, transaction description and GL account totals for all business units combined. I requested for a better organized report but was not addressed due to system capacity issues. A lot of time was spent sorting the transactions in order to get the transactions organized in a meaningful format to conduct my review of the accounts. Furthermore, some of the account balances from the report did not agree with the trial balance. Also, no regular reconciliation was performed on General Ledger accounts. I brought this to the attention of management and they responded as follows:

“We agree to the audit observation and advise that reconciliation are done for 2018 and 2019.”

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 land and buildings it claimed to own. I brought this to the management’s attention and they responded as follows:

“We engaged our permanent land officer and a Consultant to resolve that issue.”

Provision for Income Tax

Water PNG now operates under the *Companies Act 1997* and it is liable to pay Company Tax in accordance with the *PNG Income Tax Act 1959*. However, I was unable to determine the method used in calculating the tax liability. Furthermore, I was not provided with the necessary calculations, reconciliations and schedules and supporting documentation to determine the completeness and accuracy of the tax balances. I brought this to the attention of management and they responded as follows:

“The calculation of the income tax is 30% of the net operating profit which is the total revenue minus total expenses.”

Expenses recorded in Profit and Loss

Total expenses recorded for the period was K71,974,062. However, the expenditure documentations selected for my in-depth test were not provided for review to determine the necessity and frequency of the payments and to confirm whether all expenditures actually incurred and due care observed. Details are as shown below:

	Kina
Allowances	5,385,390
Gratuity Expenses	320,090
Consultancy Fee	5,066,556
Travel & Accommodation - Local	1,023,900
Travel & Accommodation - Overseas	196,911
Entertainment	120,076
TOTAL	<u>12,112,923</u>

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

“The concerned staff have supplied the transaction listing to verify the expenses without fully understanding the requirements. In addition, the shortage of man-power due to recruitment freeze by management became an issue. Also, there was an urgency to complete the audit with specific time frame. Going forward for 2018 audit, we will provide all the schedules and necessary supporting documentation.”

77.3 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 2018 and 2019 were in progress.

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 2019 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 2019 and the audit report was issued on 30 April 2020. This report contained a Qualified Opinion.

“QUALIFIED OPINION

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion of my report, the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and

- give a true and fair view of the financial position of the Company and the Group as at 31 December 2019 and their financial performance and cash flows for the year then ended.

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 2019. Management have not been provided with audited financial statements of the investee at 31 December 2019 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 2019."

80. GOGOL REFORESTATION COMPANY LIMITED

80.1 INTRODUCTION

80.1.1 Legislation

Gogol Reforestation Company Limited was incorporated under the *Companies Act*.

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.

80.1.2 Objectives of the Company

The objective of the Company is to be involved in reforestation.

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, 2018 and 2019 had not been submitted for my verification.

Further, I was informed by management on 16th July 2013 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 14 July 2020 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.

- *Fresh Produce Development Agency;*
- *Kumul Minerals Holding Limited (formerly Petromin Limited);*
- *National Development Bank Limited;*
- *Ok Tedi Mining Limited;*
- *PNG Air Services 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 (2019) 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 **42 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 (2019 AUDITS)

Entities totalling **125** subject to audit by the Auditor-General comprise **79** Public Bodies and their subsidiaries, **44** 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	
		2019/2020	2018/2019
(A)	Public Bodies and their Subsidiaries	79	80
(B)	National Government Owned Companies	44	43
(C)	National Government Shareholdings in other Companies	2	2
		125	125

Table 1. Shows the total of Types of Entities subject to Audit.

Chart 1

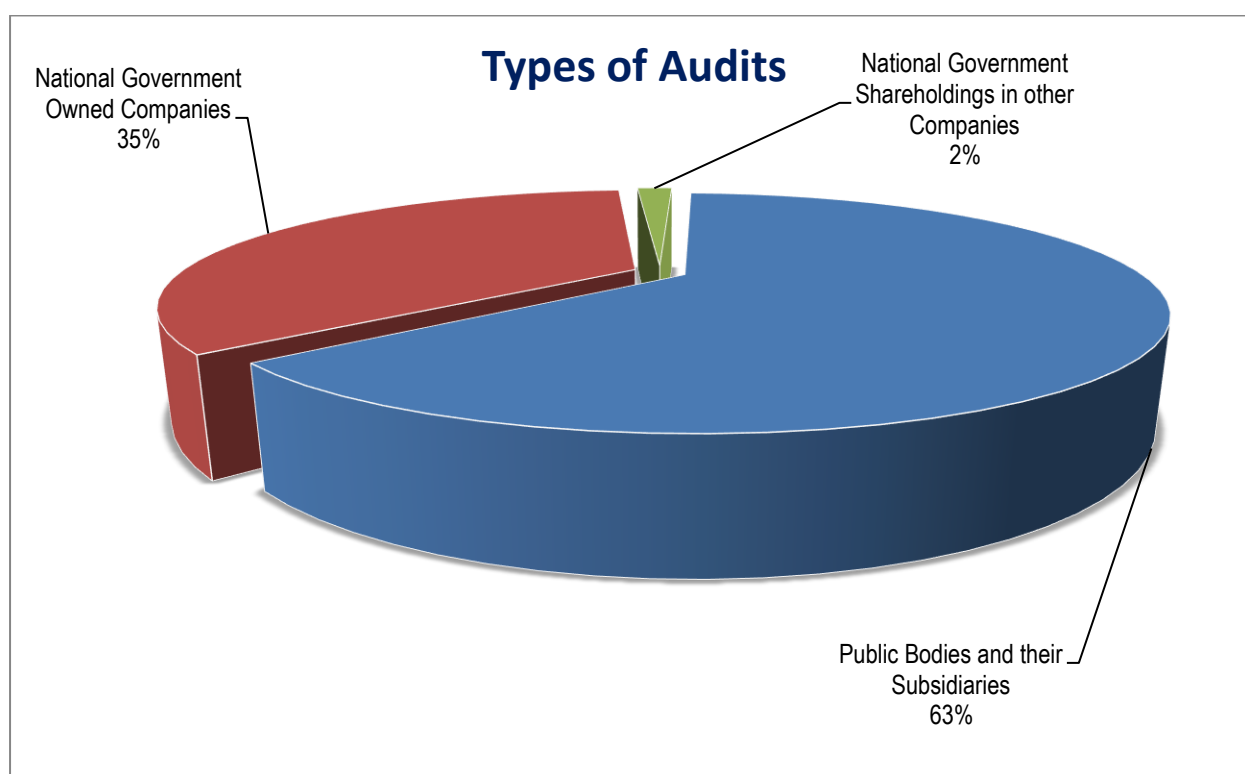


Chart 1. Shows the percentages of Types of Entities subject to Audit during 2019/2020 Audit Cycle.

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 **45** entities have submitted their financial statements for 2019 (**Schedule A**) for audit up to the time of preparing this Report. A total of **78** entities have not submitted their 2019 financial statements (**Schedule A**) for audit in 2019. It could therefore be logically concluded that, about 63% of the public bodies might not have submitted their annual reports and financial statements for 2019 together with my reports on them, to the respective Ministers for tabling in the National Parliament on or before 30 April 2020.

Table 2 and **Chart 2** shown below, and **Schedule A** attached show the status of the current year audits.

STATUS OF CURRENT YEAR AUDITS 2019

Table 2

No.	Status of Current Year Audits	Number of Entities	
		2019/2020	2018/2019
1	Audits completed and reports issued thereon (Schedule A)	3	6
2	Audits substantially completed (Schedule A)	1	5
3	Audits in progress (Schedule A)	32	23
4	Audits to commence shortly (Schedule A)	9	17
5	Financial Statements not submitted (Schedule A)	78	72
		123	123

Table 2. Shows the total of Status of Current Year (2019 Audits) (Schedule A).

Chart 2

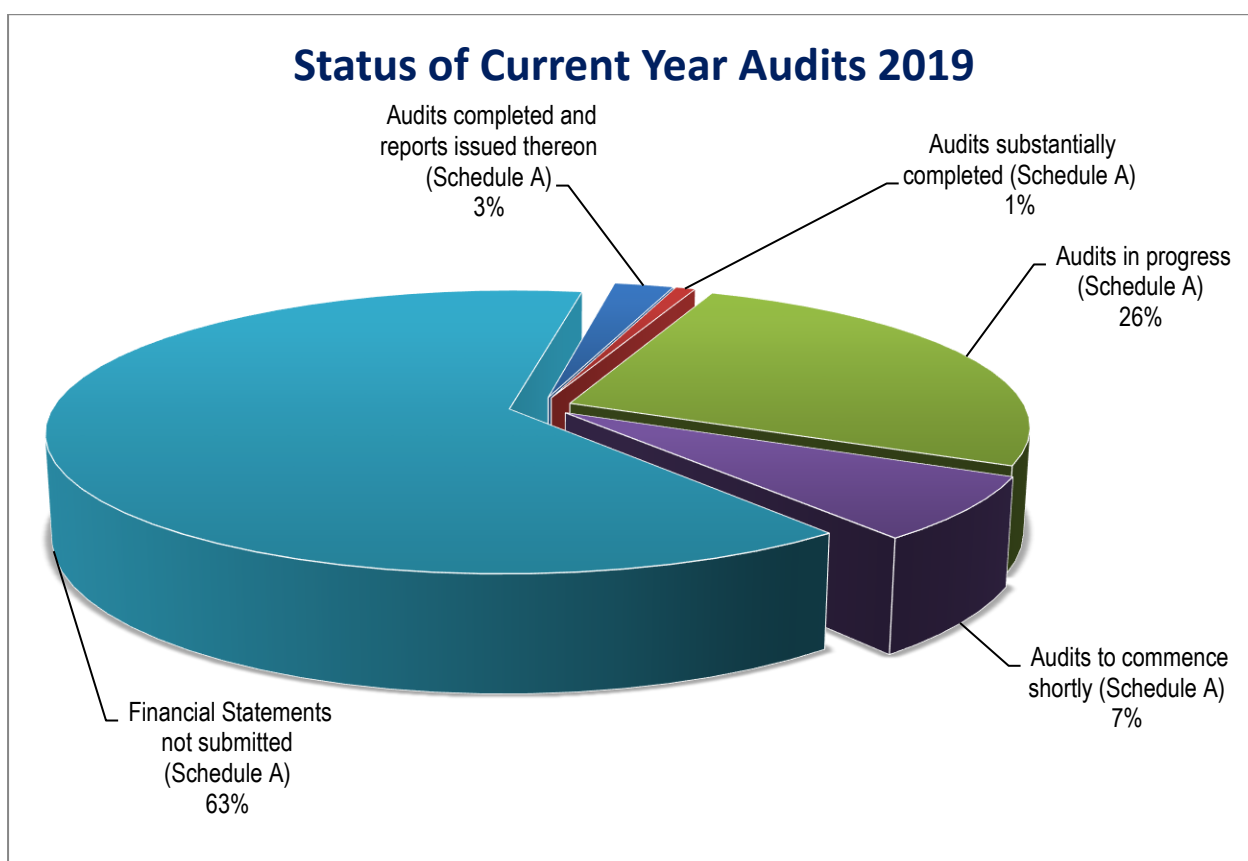


Chart 2. Shows the percentages of Audit Status for the Current Year (2019) during 2019/2020 Audit Cycle. (Schedule A).

82.6 AUDITS IN ARREARS (2018 AND PRIOR YEARS)

Records available in my Office show that a total of **128** entities (238 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 (2018 AND PRIOR YEARS)

Table 3A

No.	Status of Audits in Arrears by No. of Entities (2018 and Prior Years)	Number of Entities	
		2019/2020	2018/2019
1	Audits substantially completed (Schedule B)	30	30
2	Audits in progress (Schedule B)	41	24
3	Audits to commence shortly (Schedule B)	15	16
4	Financial Statements not submitted (Schedule B)	42	36
		128	106

Table 3A. Shows the Status of Audits in Arrears by number of Entities for 2018 and Prior Years during 2019/2020 Audit Cycle. (Schedule B).

Chart 3A

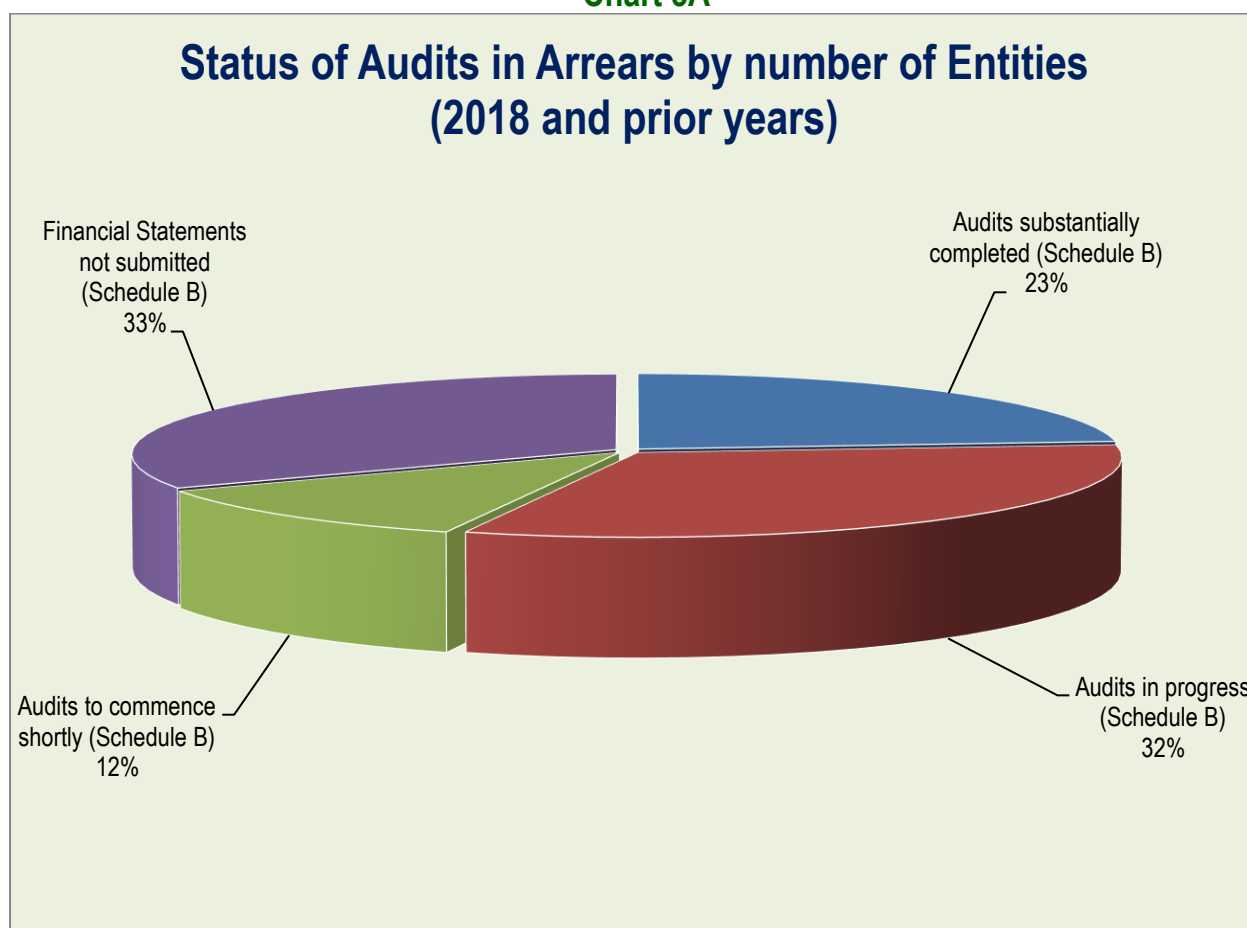


Chart 3A. Shows the percentages of Audit Status for Audits in Arrears by number of Entities for 2018 and Prior Years during 2019/2020 Audit Cycle. (Schedule B).

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2018 AND PRIOR YEARS)

Table 3B

No.	Status of Audits in Arrears by No. Of Audits (2018 & prior years)	Number of Audits	
		2019/2020	2018/2019
1	Audits substantially completed (Schedule B)	48	44
2	Audits in progress (Schedule B)	59	32
3	Audits to commence shortly (Schedule B)	30	35
4	Financial Statements not submitted (Schedule B)	101	86
		238	197

Table 3B. Shows the Status of Audits in Arrears by number of Audits for 2018 and Prior Years during 2019/2020 Audit Cycle. (Schedule B).

Chart 3B

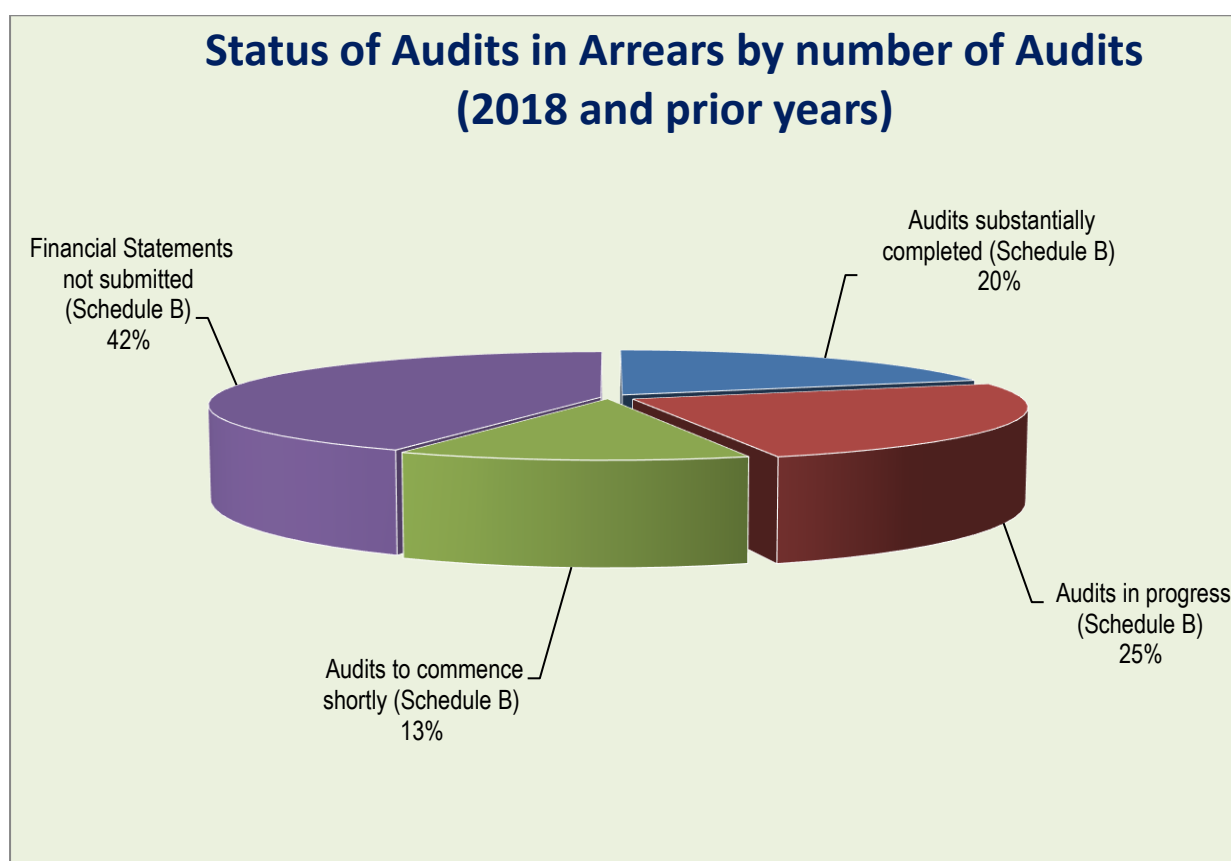


Chart 3B. Shows the percentages of Audit Status for Audits in Arrears by number of Audits for 2018 and Prior Years during 2019/2020 Audit Cycle. (Schedule B).

82.7 LONG OUTSTANDING FINANCIAL STATEMENTS

During this Audit Cycle (2019/2020), **101** audit entities were in the arrears category, increased by two compared to prior year (2018). Of these **101** entities, **237** financial statements for periods ranging from one year to seven years have still not been submitted. In other words, they still have financial statements outstanding for the years from 2012 to 2018. 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 (2018 AND PRIOR YEARS)

Table 4A

No.	Years Outstanding by Entities	Number of Entities	
		2019 Report	2018 Report
1	One Year (Schedule C)	42	20
2	Two Years (Schedule C)	25	5
3	Three Years (Schedule C)	13	2
4	Four Years (Schedule C)	8	1
5	Five Years (Schedule C)	6	4
6	Six Years (Schedule C)	5	3
7	Seven Years (Schedule C)	2	0
8	Eight Years (Schedule C)	0	1
		101	36

Table 4A. Shows the total of Long Outstanding Financial Statements by number of Entities during 2019/2020 Audit Cycle. (Schedule C).

Chart 4A

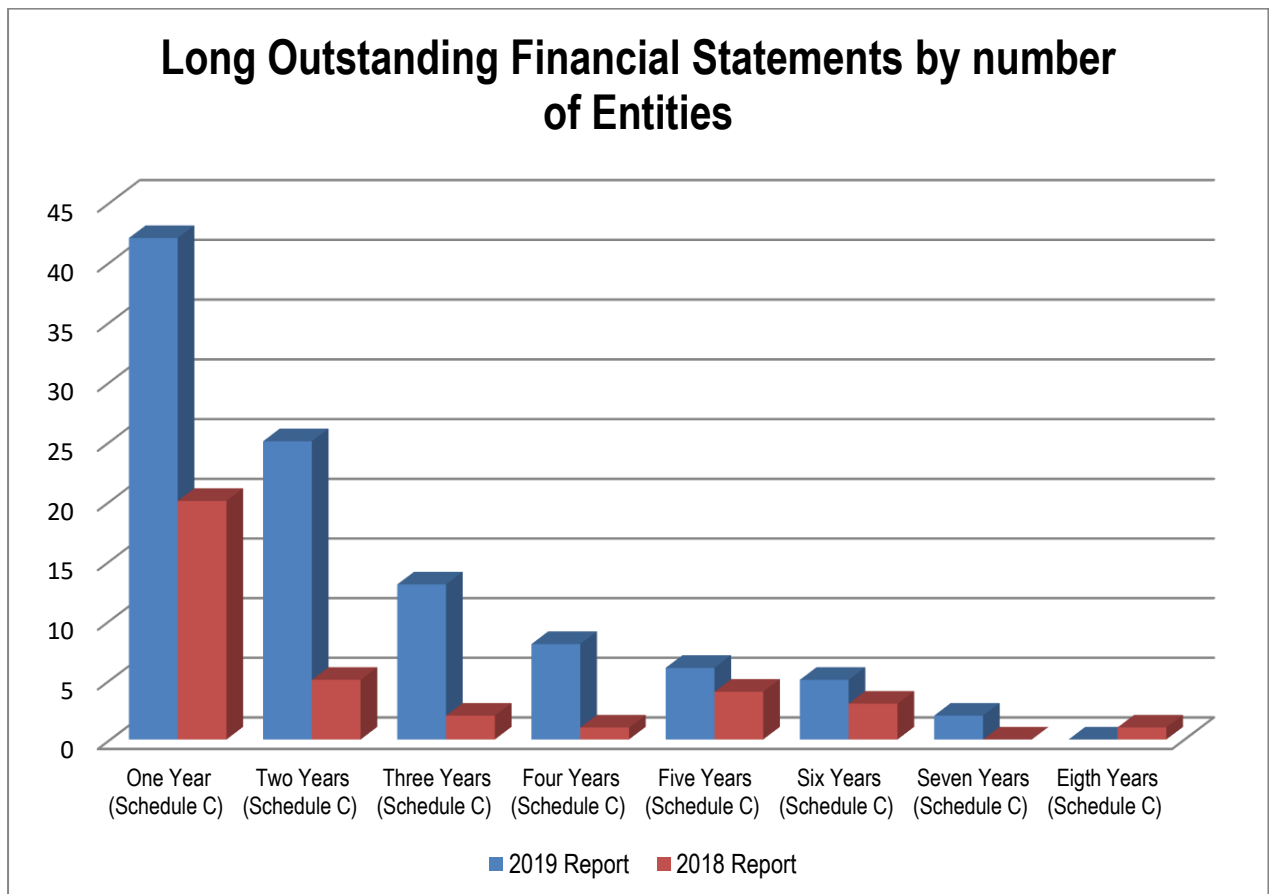


Chart 4A. Shows the percentages of Long Outstanding Financial Statements by number of Entities during 2019/2020 Audit Cycle (Schedule C).

LONG OUTSTANDING FINANCIAL STATEMENTS BY NUMBER OF AUDITS (2018 AND PRIOR YEARS)

Table 4B

No.	Years Outstanding by Audits	Number of Audits	
		2019 Report	2018 Report
1	One Year (Schedule C)	42	20
2	Two Years (Schedule C)	50	10
3	Three Years (Schedule C)	39	6
4	Four Years (Schedule C)	32	4
5	Five Years (Schedule C)	30	20
6	Six Years (Schedule C)	30	18
7	Seven Years (Schedule C)	14	0
8	Eight Years (Schedule C)	0	8
		237	86

Table 4B. Shows the total of Long Outstanding Financial Statements by number of Audits during 2019/2020 Audit Cycle. (Schedule C).

Chart 4B

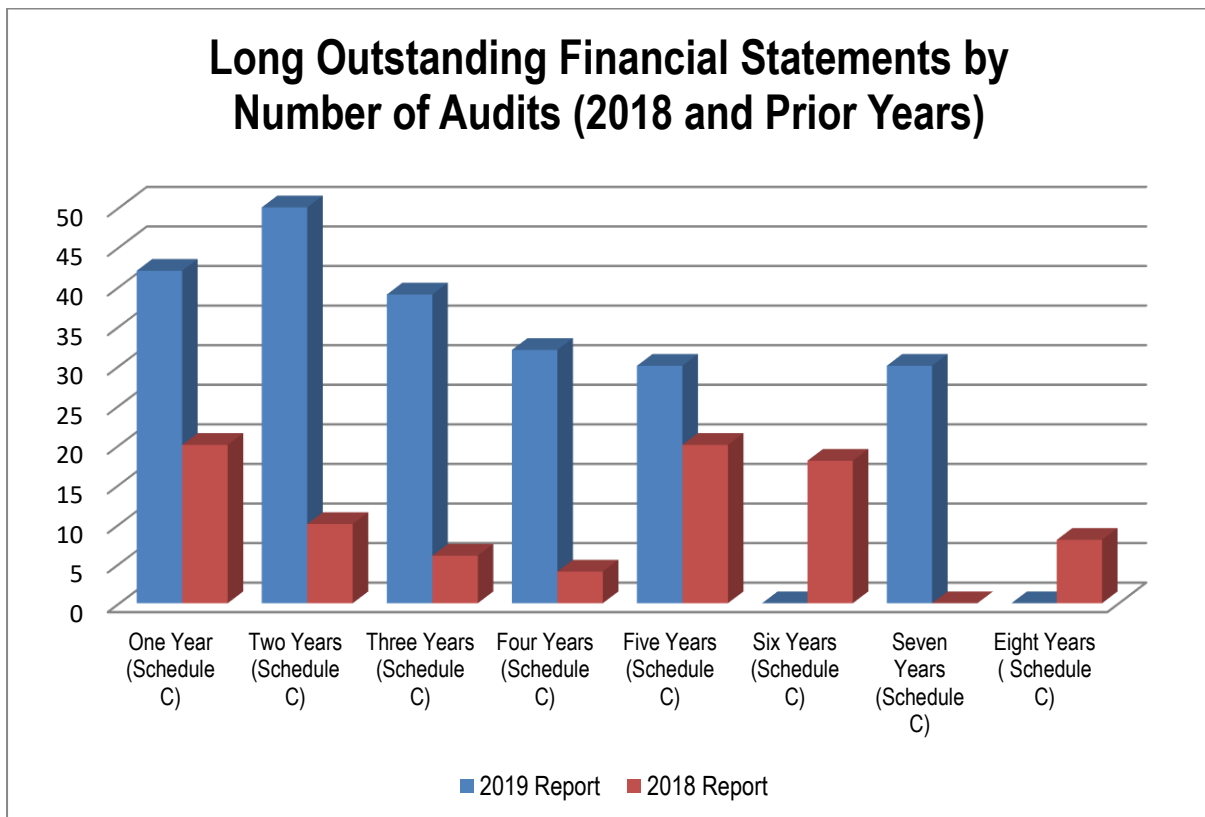


Chart 4B. Shows the percentages of Long Outstanding Financial Statements by number of Audits during 2019/2020 Audit Cycle. (Schedule C).

82.8 STATUS OF AUDITS AS AT 30 JUNE 2020

As illustrated in **Executive Summary Table A**, during July 2019 and June 2020 Audit Cycle, a **total of 221 audits** were undertaken by the Audit Office. Out of **221 audits** carried out, **81 audit** reports were issued. **Table 5** and **Chart 5** shown below provide the details of the Status of Audits during the period July 2019 to June 2020.

STATUS OF AUDITS AS AT 30 JUNE 2020

Table 5

No.	Status of Audits	Number of Audits	
		2019/2020	2018/2019
1	Audits completed and reports issued thereon (Schedules A & E)	81	123
2	Audits substantially completed (Schedules A & B)	49	49
3	Audits in progress (Schedules A & B)	91	55
4	Audits to commence shortly (Schedules A & B)	39	52
5	Financial Statements not submitted (Schedules A & B)	179	158
		439	437

Table 5. Shows the Status of Audits as at 30 June 2020 for the 2019/2020 Audit Cycle. (Schedules A&E and A&B).

Chart 5

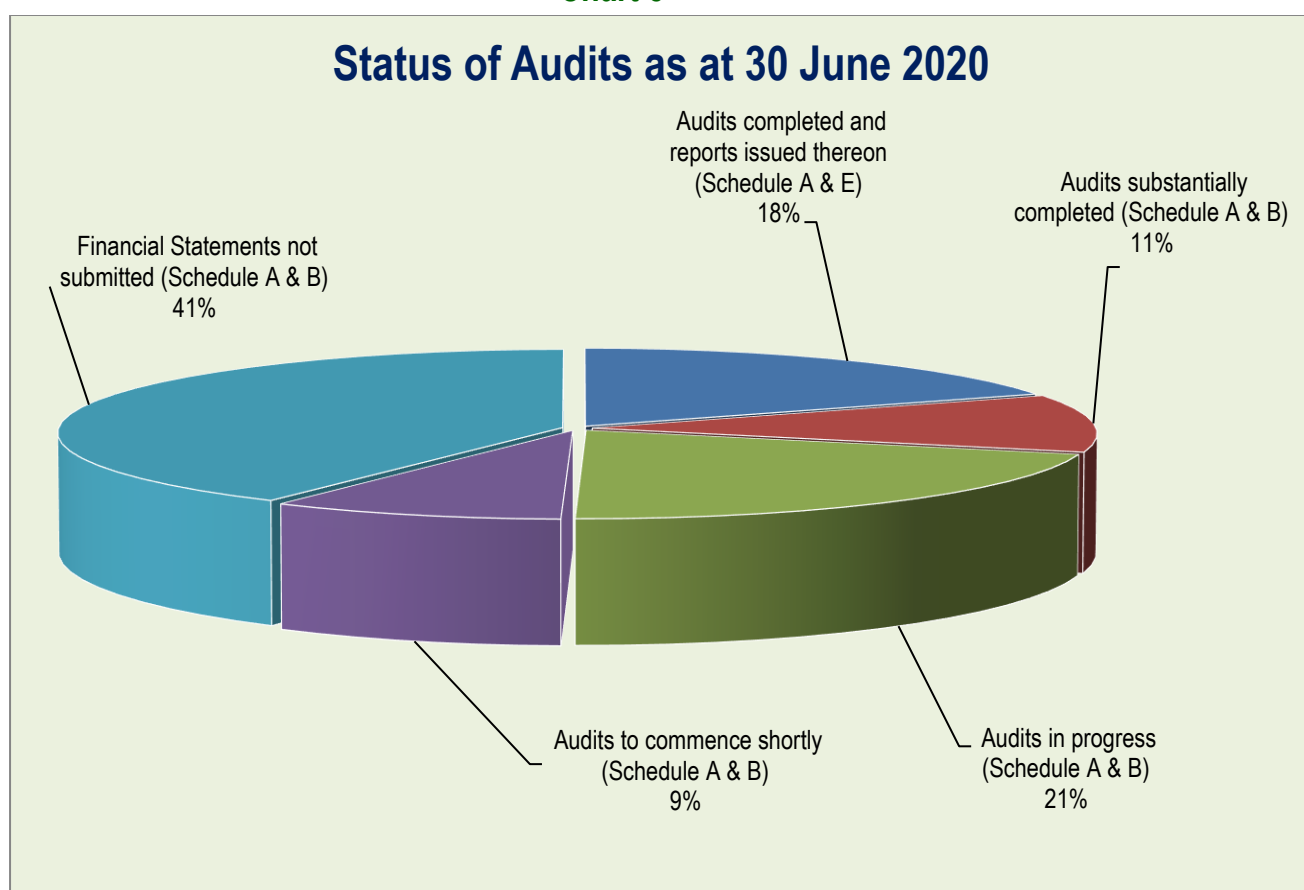


Chart 5. Shows the percentages of Audit Status as at 30 June 2020 for the 2019/2020 Audit Cycle (Schedules A&E and A&B).

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 10th SEPTEMBER
TWO THOUSAND AND TWENTY**

GORDON KEGA MBA, CPA

Acting Auditor-General of Papua New Guinea

SCHEDULES

Schedule 'A'

STATUS OF CURRENT YEAR (2019) 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	12	Independence Fellowship Trust	1
3	B	68	Motor Vehicles Insurance Limited	1
				3

(ii) AUDITS SUBSTANTIALLY COMPLETED

No.	Section	Para. No.	Entity	No. of Audits
1	A	5	Civil Aviation Safety Authority of Papua New Guinea	1
				1

(iii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	No. of Audits
1	A	2	APEC Papua New Guinea 2018 Co-ordination Authority	1
2	A	18	Kumul Consolidated Holdings	1
3	A	18A	General Business Trust	1
4	A	18B	Kumul Technology Development Corporation Limited	1
5	A	18C	PNG Dams Limited	1
6	A	25	National Capital District Commission	1
7	A	42	Papua New Guinea Accident Investigation Commission	1
8	B	63	Bmobile Limited	1
9	B	63A	Bmobile (Solomon Islands) Limited	1
10	B	64	Kumul Agriculture Limited	1
11	B	65	Kumul Petroleum Holdings Limited	1
12	B	65A	Eda Oil Limited	1
13	B	65B	Kumul Exploration (Asia) Limited	1
14	B	65H	Kumul Lending Co Pte Limited	1
15	B	65I	Kumul LNG Limited	1
16	B	65J	Kumul Petroleum (Development) Limited	1
17	B	65K	Kumul Petroleum (Investments) Limited	1
18	B	65L	Kumul Petroleum (Kroton) Limited	1
19	B	65M	Kumul Petroleum (Pipeline) Limited	1
20	B	65N	Kumul Petroleum (Tech and Advisory) Limited	1
21	B	65O	Kumul Petroleum Marketing Pte Limited	1
22	B	65P	Kumul Security Agent Limited	1
23	B	65Q	NPCP Oil Company Pty Limited	1
24	B	69B	Airports Investments Limited	1
25	B	71	Papua New Guinea Ports Corporation Limited	1
26	B	75	Post (PNG) Limited	1
27	B	76	Telikom (PNG) Limited	1
28	B	76A	DATEC (PNG) Limited	1
29	B	76B	Kalang Advertising Limited	1
30	B	76C	Media Niugini Limited (EMTV)	1
31	B	76D	PNG Directories Limited	1
32	B	77	Water PNG Limited	1
				32

(iv) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity	No. of Audits
1	A	13	Independent Consumer and Competition Commission	1
2	A	16	Investment Promotion Authority	1
3	A	23	National AIDS Council Secretariat	1
4	A	26	National Cultural Commission	1
5	A	32	National Maritime Safety Authority	1
6	A	33	National Museum and Art Gallery	1
7	A	35	National Roads Authority	1
8	A	48	Papua New Guinea Maritime College	1
9	A	57	Tourism Promotion Authority	1

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(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	28-11-16
2	A	4A	Papua New Guinea Maritime Transport Limited	1	2012	29-10-15
3	A	6	Climate Change and Development Authority	1	2014	19-03-20
4	A	7	Cocoa Board of Papua New Guinea	1	2017	18-03-19
5	A	7A	Cocoa Pod Borer Project Fund	1	2017	18-03-19
6	A	7B	Cocoa Stabilisation Fund	1	2017	18-03-19
7	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	1	2013	09-08-16
8	A	9	Coffee Industry Corporation Limited	1	2016	29-11-19
9	A	9A	Coffee Industry Fund	1	2016	29-11-19
10	A	9B	Patana No.61 Limited	1	2016	29-11-19
11	A	10	Conservation and Environment Protection Authority	1	2017	22-06-20
12	A	11	Government Printing Office	1	2015	10-09-18
13	A	14	Industrial Centres Development Corporation	1	2017	02-09-19
14	A	15	Internal Revenue Commission	1	2015	22-03-19
15	A	17	Kokonasi Industri Koporesen	1	2018	29-05-20
16	A	17A	Papua New Guinea Coconut Extension Fund	1	2018	29-05-20
17	A	17B	Papua New Guinea Coconut Research Fund	1	2018	29-05-20
18	A	19	Legal Training Institute	1	2016	22-06-20
19	A	20	Mineral Resources Authority	1	2014	15-06-17
20	A	21	National Agriculture Quarantine and Inspection Authority	1	2017	28-08-19
21	A	22	National Agricultural Research Institute	1	2018	14-02-20
22	A	24	National Broadcasting Corporation	1	2015	28-08-19
23	A	25A	National Capital District Botanical Enterprises Limited	1	2012	04-05-15
24	A	25B	Port Moresby Nature Park Limited	1	2016	27-08-19
25	A	27	National Economic and Fiscal Commission	1	2018	10-10-19
26	A	28	National Fisheries Authority	1	2016	24-05-19
27	A	29	National Gaming Control Board	1	2015	15-05-19
28	A	29A	National Gaming Control Board Community Benefit Fund Trust	1	2015	15-05-19
29	A	30	National Housing Corporation	1	2014	21-11-17
30	A	30A	National Housing Estate Limited	1	New Inclusion	
31	A	31	National Information and Communications Technology Authority (NICTA)	1	2015	15-05-19
32	A	34	National Research Institute	1	2016	28-06-17
33	A	36	National Training Council	1	2016	28-02-18
34	A	37	National Volunteer Service	1	2016	29-05-17
35	A	38	National Youth Development Authority	1	2017	14-10-19
36	A	39	Office of the Insurance Commissioner	1	2017	13-05-19

No.	Section	Para. No.	Entity	No. of Audits	Last Report Issued	Date of Report
37	A	40	Oil Palm Industry Corporation	1	2011	30-09-16
38	A	41	Ombudsman Commission of Papua New Guinea	1	2018	18-02-20
39	A	43	Papua New Guinea Customs Service	1	2016	31-05-19
40	A	44	Papua New Guinea Forest Authority	1	2014	11-06-20
41	A	45	Papua New Guinea Immigration and Citizenship Service Authority	1	2017	13-05-19
42	A	46	Papua New Guinea Institute of Medical Research	1	2017	25-02-19
43	A	47	Pacific Institute of Leadership and Governance	1	2014	20-03-20
44	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	1	2016	10-12-18
45	A	50	Papua New Guinea Sports Foundation	1	2015	30-04-19
46	A	51	Papua New Guinea University of Technology	1	2017	11-03-20
47	A	51A	National Analytical and Testing Services Limited	1	2011	04-04-16
48	A	51B	Unitech Development and Consultancy Company Limited	1	2013	22-10-15
49	A	52	Parliamentary Members' Retirement Benefits Fund	1	2016	28-02-18
50	A	53	Public Curator of Papua New Guinea	1	2013	18-10-17
51	A	54	Road Traffic Authority	1	2018	27-05-20
52	A	55	Security Industries Authority	1	2016	21-04-20
53	A	56	Small and Medium Enterprises Corporation	1	2017	30-09-19
54	A	58	University of Goroka	1	2016	24-09-18
55	A	58A	Unigor Consultancy Limited	1	2015	27-04-20
56	A	58B	Unigor Humi Catering Limited	1	New Inclusion	
57	A	59	University of Natural Resources and Environment	1	2014	29-10-16
58	A	60	University of Papua New Guinea	1	2014	03-08-18
59	A	60A	Unisave Limited	1	2011	25-08-14
60	A	60B	Univentures Limited	1	2011	24-06-14
61	B	62	Air Niugini Limited	1	2015	13-12-17
62	B	62A	Air Niugini Cargo Limited	1	New Inclusion	
63	B	62B	Air Niugini Properties Limited	1	New Inclusion	
64	B	62C	Business Travel Centre Limited	1	New Inclusion	
65	B	62D	Link-PNG Limited	1	2015	13-12-17
66	B	65C	Kumul Gas Foreland 239 B.V	1	New Inclusion	
67	B	65D	Kumul Gas Foreland 261 B.V	1	New Inclusion	
68	B	65E	Kumul Gas Foreland 268 B.V	1	New Inclusion	
69	B	65F	Kumul Gas Foreland 269 B.V	1	New Inclusion	
70	B	65G	Kumul Gas Niugini B.V	1	New Inclusion	
71	B	66	Livestock Development Corporation Limited	1	2009	31-10-12
72	B	67	Mineral Resources Development Company Limited	1	2016	27-04-20
73	B	69	National Airports Corporation Limited	1	2018	24-06-19
74	B	69A	Airport City Development Limited	1	2018	24-06-19
75	B	70	NCD Water and Sewerage Limited (Eda Ranu)	1	2016	18-05-20
76	B	72	PNG Air Services Limited	1	2015	08-08-19
77	B	73	PNG DataCo Limited	1	2016	20-05-20
78	B	74	PNG Power Limited	1	2017	01-05-19

Schedule 'B'

STATUS OF AUDITS IN ARREARS (2018 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 to 2018	3
4	A	14	Industrial Centres Development Corporation	2018	1
5	A	15	Internal Revenue Commission	2016 & 2017	2
6	A	18	Kumul Consolidated Holdings	2018	1
7	A	18A	General Business Trust	2018	1
8	A	18B	Kumul Technology Development Corporation Limited	2018	1
9	A	18C	PNG Dams Limited	2018	1
10	A	20	Mineral Resources Authority	2015	1
11	A	24	National Broadcasting Corporation	2016	1
12	A	26	National Cultural Commission	2018	1
13	A	28	National Fisheries Authority	2017	1
14	A	31	National Information and Communications Technology Authority (NICTA)	2016	1
15	A	34	National Research Institute	2017	1
16	A	36	National Training Council	2017	1
17	A	39	Office of the Insurance Commissioner	2018	1
18	A	40	Oil Palm Industry Corporation	2012	1
19	A	46	Papua New Guinea Institute of Medical Research	2018	1
20	A	47	Pacific Institute of Leadership and Governance	2015 to 2017	3
21	A	51A	National Analytical and Testing Services Limited	2012	1
22	A	52	Parliamentary Members' Retirement Benefits Fund	2017	1
23	A	53	Public Curator of Papua New Guinea	2014	1
24	A	58	University of Goroka	2017	1
25	A	59	University of Natural Resources and Environment	2015	1
26	B	65J	Kumul Petroleum (Development) Limited	2017 & 2018	2
27	B	65K	Kumul Petroleum (Investments) Limited	2017 & 2018	2
28	B	66	Livestock Development Corporation Limited	2010 to 2017	8
29	B	73	PNG DataCo Limited	2017	1
30	B	76	Telikom (PNG) Limited	2015 to 2017	3

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(ii) AUDITS IN PROGRESS

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	2	APEC Papua New Guinea 2018 Co-ordination Authority	2015 to 2018	4
2	A	6	Climate Change and Development Authority	2015 to 2017	3
3	A	7	Cocoa Board of Papua New Guinea	2018	1
4	A	7A	Cocoa Pod Borer Project Fund	2018	1
5	A	7B	Cocoa Stabilisation Fund	2018	1
6	A	9	Coffee Industry Corporation Limited	2017	1
7	A	9A	Coffee Industry Fund	2017	1
8	A	9B	Patana No.61 Limited	2017	1
9	A	10	Conservation and Environment Protection Authority	2018	1
10	A	20	Mineral Resources Authority	2016	1

No.	Section	Para. No.	Entity	Year	No. of Audits
11	A	21	National Agriculture Quarantine and Inspection Authority	2018	1
12	A	24	National Broadcasting Corporation	2017	1
13	A	25B	Port Moresby Nature Park Limited	2017 & 2018	2
14	A	28	National Fisheries Authority	2018	1
15	A	29	National Gaming Control Board	2016	1
16	A	29A	National Gaming Control Board Community Benefit Fund Trust	2016	1
17	A	31	National Information and Communications Technology Authority	2017	1
18	A	40	Oil Palm Industry Corporation	2013 & 2014	2
19	A	43	Papua New Guinea Customs Service	2017 & 2018	2
20	A	44	Papua New Guinea Forest Authority	2015	1
21	A	51	Papua New Guinea University of Technology	2018	1
22	A	60	University of Papua New Guinea	2015	1
23	B	62	Air Niugini Limited	2016 to 2018	3
24	B	62A	Air Niugini Cargo Limited	2017 & 2018	2
25	B	62B	Air Niugini Properties Limited	2018	1
26	B	62C	Business Travel Centre Limited	2017 & 2018	2
27	B	62D	Link-PNG Limited	2016 to 2018	3
28	B	63	Bemobile Limited	2018	1
29	B	63A	Bemobile (Solomon Islands) Limited	2018	1
30	B	65Q	NPCP Oil Company Pty Limited	2015 to 2018	4
31	B	66	Livestock Development Corporation Limited	2018	1
32	B	67	Mineral Resources Development Company Limited	2017	1
33	B	70	NCD Water and Sewerage Limited (Eda Ranu)	2017	1
34	B	73	PNG DataCo Limited	2018	1
35	B	74	PNG Power Limited	2018	1
36	B	76	Telikom (PNG) Limited	2018	1
37	B	76A	DATEC (PNG) Limited	2018	1
38	B	76B	Kalang Advertising Limited	2017 & 2018	2
39	B	76C	Media Niugini Limited (EMTV)	2018	1
40	B	76D	PNG Directories Limited	2018	1
41	B	77	Water PNG Limited	2018	1

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(iii) AUDITS TO COMMENCE SHORTLY

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Border Development Authority	2015 to 2017	3
2	A	9	Coffee Industry Corporation Limited	2018	1
3	A	9A	Coffee Industry Fund	2018	1
4	A	9B	Patana No.61 Limited	2018	1
5	A	29	National Gaming Control Board	2017	1
6	A	29A	National Gaming Control Board Community Benefit Fund Trust	2017	1
7	A	30	National Housing Corporation	2015 to 2017	3
8	A	30A	National Housing Estate Limited	2010 to 2014	5
9	A	31	National Information and Communications Technology Authority	2018	1
10	A	38	National Youth Development Authority	2018	1
11	A	44	Papua New Guinea Forest Authority	2016	1
12	A	53	Public Curator of Papua New Guinea	2015 to 2017	3
13	A	56	Small and Medium Enterprises Corporation	2018	1
14	A	58B	Unigor Humi Catering Limited	2011 to 2015	5
15	A	60	University of Papua New Guinea	2016 & 2017	2

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(iv) **FINANCIAL STATEMENTS NOT SUBMITTED**

No.	Section	Para. No.	Entity	Year	No. of Audits
1	A	4	Border Development Authority	2018	1
2	A	4A	Papua New Guinea Maritime Transport Limited	2013 to 2018	6
3	A	6	Climate Change and Development Authority	2018	1
4	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	2017 & 2018	2
5	A	15	Internal Revenue Commission	2018	1
6	A	19	Legal Training Institute	2017 & 2018	2
7	A	20	Mineral Resources Authority	2017 & 2018	2
8	A	24	National Broadcasting Corporation	2018	1
9	A	25A	National Capital District Botanical Enterprises Limited	2013 to 2018	6
10	A	29	National Gaming Control Board	2018	1
11	A	29A	National Gaming Control Board Community Benefit Fund Trust	2018	1
12	A	30	National Housing Corporation	2018	1
13	A	30A	National Housing Estate Limited	2015 to 2018	4
14	A	34	National Research Institute	2018	1
15	A	36	National Training Council	2018	1
16	A	37	National Volunteer Service	2017 & 2018	2
17	A	40	Oil Palm Industry Corporation	2015 to 2018	4
18	A	44	Papua New Guinea Forest Authority	2017 & 2018	2
19	A	45	Papua New Guinea Immigration and Citizenship Service Authority	2018	1
20	A	47	Pacific Institute of Leadership and Governance	2018	1
21	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2017 & 2018	2
22	A	50	Papua New Guinea Sports Foundation	2016 to 2018	3
23	A	51A	National Analytical and Testing Services Limited	2013 to 2018	6
24	A	51B	Unitech Development and Consultancy Company Limited	2014 to 2018	5
25	A	52	Parliamentary Members' Retirement Benefits Fund	2018	1
26	A	53	Public Curator of Papua New Guinea	2018	1
27	A	55	Security Industries Authority	2017 & 2018	2
28	A	58	University of Goroka	2018	1
29	A	58A	Unigor Consultancy Limited	2016 to 2018	3
30	A	58B	Unigor Humi Catering Limited	2016 to 2018	3
31	A	59	University of Natural Resources and Environment	2016 to 2018	3
32	A	60	University of Papua New Guinea	2018	1
33	A	60A	Unisave Limited	2012 to 2018	7
34	A	60B	Univentures Limited	2012 to 2018	7
35	B	65C	Kumul Gas Foreland 239 B.V	2017 & 2018	2
36	B	65D	Kumul Gas Foreland 261 B.V	2017 & 2018	2
37	B	65E	Kumul Gas Foreland 268 B.V	2017 & 2018	2
38	B	65F	Kumul Gas Foreland 269 B.V	2017 & 2018	2
39	B	65G	Kumul Gas Niugini B.V	2017 & 2018	2
40	B	67	Mineral Resources Development Company Limited	2018	1
41	B	70	NCD Water and Sewerage Limited (Eda Ranu)	2018	1
42	B	72	PNG Air Services Limited	2016 to 2018	3

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Schedule 'C'

LONG OUTSTANDING FINANCIAL STATEMENTS (2018 & PRIOR YEARS)

(i) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN ONE YEAR

No.	Section	Para. No.	Entity	No. of Audits
1	A	4	Border Development Authority	1
2	A	4A	Papua New Guinea Maritime Transport Limited	1
3	A	6	Climate Change and Development Authority	1
4	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	1
5	A	15	Internal Revenue Commission	1
6	A	19	Legal Training Institute	1
7	A	20	Mineral Resources Authority	1
8	A	24	National Broadcasting Corporation	1
9	A	25A	National Capital District Botanical Enterprises Limited	1
10	A	29	National Gaming Control Board	1
11	A	29A	National Gaming Control Board Community Benefit Fund Trust	1
12	A	30	National Housing Corporation	1
13	A	30A	National Housing Estate Limited	1
14	A	34	National Research Institute	1
15	A	36	National Training Council	1
16	A	37	National Volunteer Service	1
17	A	40	Oil Palm Industry Corporation	1
18	A	44	Papua New Guinea Forest Authority	1
19	A	45	Papua New Guinea Immigration and Citizenship Service Authority	1
20	A	47	Pacific Institute of Leadership and Governance	1
21	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	1
22	A	50	Papua New Guinea Sports Foundation	1
23	A	51A	National Analytical and Testing Services Limited	1
24	A	51B	Unitech Development and Consultancy Company Limited	1
25	A	52	Parliamentary Members' Retirement Benefits Fund	1
26	A	53	Public Curator of Papua New Guinea	1
27	A	55	Security Industries Authority	1
28	A	58	University of Goroka	1
29	A	58A	Unigor Consultancy Limited	1
30	A	58B	Unigor Humi Catering Limited	1
31	A	59	University of Natural Resources and Environment	1
32	A	60	University of Papua New Guinea	1
33	A	60A	Unisave Limited	1
34	A	60B	Univentures Limited	1
35	B	65C	Kumul Gas Foreland 239 B.V	1
36	B	65D	Kumul Gas Foreland 261 B.V	1
37	B	65E	Kumul Gas Foreland 268 B.V	1
38	B	65F	Kumul Gas Foreland 269 B.V	1
39	B	65G	Kumul Gas Niugini B.V	1
40	B	67	Mineral Resources Development Company Limited	1
41	B	70	NCD Water and Sewerage Limited (Eda Ranu)	1
42	B	72	PNG Air Services Limited	1

(ii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN TWO (2) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	4A	Papua New Guinea Maritime Transport Limited	2
2	A	8	Cocoa Coconut Institute Limited of Papua New Guinea	2
3	A	19	Legal Training Institute	2
4	A	20	Mineral Resources Authority	2
5	A	25A	National Capital District Botanical Enterprises Limited	2
6	A	30A	National Housing Estate Limited	2
7	A	37	National Volunteer Service	2
8	A	40	Oil Palm Industry Corporation	2
9	A	44	Papua New Guinea Forest Authority	2
10	A	49	Papua New Guinea National Institute of Standards and Industrial Technology	2
11	A	50	Papua New Guinea Sports Foundation	2
12	A	51A	National Analytical and Testing Services Limited	2
13	A	51B	Unitech Development and Consultancy Company Limited	2
14	A	55	Security Industries Authority	2
15	A	58A	Unigor Consultancy Limited	2
16	A	58B	Unigor Humi Catering Limited	2
17	A	59	University of Natural Resources and Environment	2
18	A	60A	Unisave Limited	2
19	A	60B	Univentures Limited	2
20	B	65C	Kumul Gas Foreland 239 B.V	2
21	B	65D	Kumul Gas Foreland 261 B.V	2
22	B	65E	Kumul Gas Foreland 268 B.V	2
23	B	65F	Kumul Gas Foreland 269 B.V	2
24	B	65G	Kumul Gas Niugini B.V	2
25	B	72	PNG Air Services Limited	2
				50

(iii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN THREE (3) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	4A	Papua New Guinea Maritime Transport Limited	3
2	A	25A	National Capital District Botanical Enterprises Limited	3
3	A	30A	National Housing Estate Limited	3
4	A	40	Oil Palm Industry Corporation	3
5	A	50	Papua New Guinea Sports Foundation	3
6	A	51A	National Analytical and Testing Services Limited	3
7	A	51B	Unitech Development and Consultancy Company Limited	3
8	A	58A	Unigor Consultancy Limited	3
9	A	58B	Unigor Humi Catering Limited	3
10	A	59	University of Natural Resources and Environment	3
11	A	60A	Unisave Limited	3
12	A	60B	Univentures Limited	3
13	B	72	PNG Air Services Limited	3
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(iv) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FOUR (4) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	4A	Papua New Guinea Maritime Transport Limited	4
2	A	25A	National Capital District Botanical Enterprises Limited	4
3	A	30A	National Housing Estate Limited	4
4	A	40	Oil Palm Industry Corporation	4
5	A	51A	National Analytical and Testing Services Limited	4
6	A	51B	Unitech Development and Consultancy Company Limited	4
7	A	60A	Unisave Limited	4
8	A	60B	Univentures Limited	4
				32

(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	51A	National Analytical and Testing Services Limited	5
4	A	51B	Unitech Development and Consultancy Company Limited	5
5	A	60A	Unisave Limited	5
6	A	60B	Univentures Limited	5
				30

(vi) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN SIX (6) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	4A	Papua New Guinea Maritime Transport Limited	6
2	A	25A	National Capital District Botanical Enterprises Limited	6
3	A	51A	National Analytical and Testing Services Limited	6
4	A	60A	Unisave Limited	6
5	A	60B	Univentures Limited	6
				30

(vii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN SEVEN (7) YEARS

No.	Section	Para. No.	Entity	No. of Audits
1	A	60A	Unisave Limited	7
2	A	60B	Univentures Limited	7
				14
				237

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 (2018 AND PRIOR YEARS) COMPLETED DURING 2019/2020 AUDIT CYCLE

2018 AUDITS - COMPLETED DURING 2019/2020

No.	Section	Para. No.	Entity	No. of Audits
1	A	5	Civil Aviation Safety Authority of Papua New Guinea	1
2	A	12	Independence Fellowship Trust	1
3	A	13	Independent Consumer and Competition Commission	1
4	A	16	Investment Promotion Authority	1
5	A	17	Kokonasi 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	22	National Agricultural Research Institute	1
9	A	23	National AIDS Council Secretariat	1
10	A	25	National Capital District Commission	1
11	A	27	National Economic and Fiscal Commission	1
12	A	32	National Maritime Safety Authority	1
13	A	35	National Roads Authority	1
14	A	41	Ombudsman Commission of Papua New Guinea	1
15	A	42	Papua New Guinea Accident Investigation Commission	1
16	A	48	Papua New Guinea Maritime College	1
17	A	54	Road Traffic Authority	1
18	A	57	Tourism Promotion Authority	1
19	B	64	Kumul Agriculture Limited	1
20	B	65	Kumul Petroleum Holdings Limited	1
21	B	65A	Eda Oil Limited	1
22	B	65B	Kumul Exploration (Asia) Limited	1
23	B	65H	Kumul Lending Co Pte Limited	1
24	B	65I	Kumul LNG Limited	1
25	B	65L	Kumul Petroleum (Kroton) Limited	1
26	B	65M	Kumul Petroleum (Pipeline) Limited	1
27	B	65N	Kumul Petroleum (Tech and Advisory) Limited	1
28	B	65O	Kumul Petroleum Marketing Pte Limited	1
29	B	65P	Kumul Security Agent Limited	1
30	B	71	Papua New Guinea Ports Corporation Limited	1
31	B	75	Post (PNG) Limited	1

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2017 AUDITS - COMPLETED DURING 2019/2020

No.	Section	Para. No.	Entity	No. of Audits
1	A	10	Conservation and Environment Protection Authority	1
2	A	14	Industrial Centres Development Corporation	1
3	A	18	Kumul Consolidated Holdings	1
4	A	18A	General Business Trust	1
5	A	18B	Kumul Technology Development Corporation Limited	1
6	A	18C	PNG Dams Limited	1
7	A	21	National Agriculture Quarantine and Inspection Authority	1
8	A	25	National Capital District Commission	1
9	A	26	National Cultural Commission	1
10	A	38	National Youth Development Authority	1
11	A	41	Ombudsman Commission of Papua New Guinea	1
12	A	51	Papua New Guinea University of Technology	1
13	A	54	Road Traffic Authority	1
14	A	56	Small and Medium Enterprises Corporation	1
15	B	65A	Eda Oil Limited	1
16	B	65I	Kumul LNG Limited	1
17	B	65M	Kumul Petroleum (Pipeline) Limited	1
18	B	65N	Kumul Petroleum (Tech and Advisory) Limited	1
19	B	76A	DATEC (PNG) Limited	1
20	B	76C	Media Niugini Limited (EMTV)	1
21	B	76D	PNG Directories Limited	1
22	B	77	Water PNG Limited	1

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2016 AUDITS - COMPLETED DURING 2019/2020

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	19	Legal Training Institute	1
5	A	25	National Capital District Commission	1
6	A	25B	Port Moresby Nature Park Limited	1
7	A	26	National Cultural Commission	1
8	A	55	Security Industries Authority	1
9	A	56	Small and Medium Enterprises Corporation	1
10	B	65N	Kumul Petroleum (Tech and Advisory) Limited	1
11	B	67	Mineral Resources Development Company Limited	1
12	B	70	NCD Water and Sewerage Limited (Eda Ranu)	1
13	B	73	PNG DataCo Limited	1
14	B	76B	Kalang Advertising Limited	1

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2015 AUDITS - COMPLETED DURING 2019/2020

No.	Section	Para. No.	Entity	No. of Audits
1	A	19	Legal Training Institute	1
2	A	24	National Broadcasting Corporation	1
3	A	26	National Cultural Commission	1
4	A	58A	Unigor Consultancy Limited	1
5	B	70	NCD Water and Sewerage Limited (Eda Ranu)	1
				5

2014 AUDITS - COMPLETED DURING 2019/2020

No.	Section	Para. No.	Entity	No. of Audits
1	A	6	Climate Change and Development Authority	1
2	A	19	Legal Training Institute	1
3	A	44	Papua New Guinea Forest Authority	1
4	A	47	Pacific Institute of Leadership and Governance	1
5	A	58A	Unigor Consultancy Limited	1
				5

2013 AUDITS - COMPLETED DURING 2019/2020

No.	Section	Para. No.	Entity	No. of Audits
1	A	44	Papua New Guinea Forest Authority	1
				1
				78



AUDITING FOR IMPACT