



AUDITOR-GENERAL'S OFFICE

Part 4 Audit Report on Public Bodies and their subsidiaries, National Government Owned Companies and National Government Shareholdings in other Companies

BELOW IS A SUMMARY OF PART 4 OF THE AUDITOR GENERAL'S REPORT FOR 2021 (COVERING THE PERIOD JULY 2021 TO JUNE 2022) THAT WAS TABLED IN PARLIAMENT ON THE 21ST OF MARCH 2023. THE AUDITOR GENERAL'S PART 4 REPORT FOR 2022 (COVERING THE PERIOD JULY 2022 TO JUNE 23) IS CURRENTLY BEING PREPARED AND WILL BE PRESENTED TO THE PARLIAMENT SOON.

During the period July 2021 to June 2022, audit was carried out on 130 public entities consisting 62 public bodies and their 21 Subsidiaries, and 16 National Government Owned Companies and their 31 Subsidiaries. The report covers the audits of these entities 'financial statements for a number of years, and not just 2021.

In accordance to section 63(1) and (3)(a) of the Public Finance Management Act (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 Finance Minister to present such report and statements to the Parliament...' the year ended 31 December preceding, together with financial statements to enable the Finance Minister to present such report and statements to the Parliament...'

Prior to submitting 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.

72 entities have failed despite these legislative requirements in not submitting the 2021 financial statements, with 158 financial statements for 2020 and prior years as shown in Table A.

Table A
STATUS OF AUDITS AS AT 30 JUNE 2022 (END OF 2021/2022 CYCLE)

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to Commence Shortly	Financial Statements not Submitted	Non Operational Entities/ Ceased Companies	Total 2020/2021	Total 2019/2020
2021	4	3	35	9	72	3	126	-
2020	27	14	21	11	50	2	125	-
2019	19	19	10	10	37	1	96	123
2018	13	11	8	7	25	-	64	117
2017	7	6	8	3	18	-	42	83
2016	5	3	3	3	12	-	26	48
2015	4	3	2	2	6	-	17	28
2014	2	4	1	-	4	-	11	18
2013	3	2	-	-	4	-	9	10
2012	1	2	-	-	2	-	5	7
2011	1	2	-	-	-	-	3	3
2010	-	2	-	-	-	-	2	2
Total	86	71	88	45	230	6	526	439

According to year 2021 row of Table A, shows that only 4 audits were reported as completed and 38 audits are either incomplete or are in progress of the total 126 audits for the current year (2021). The limitations derived when the lock-down was imposed by Government during the Covid-19 Pandemic that ceased all economic activities then. However, of the total 86 financial statements audited in the audit cycle year 2021 and prior years, 26 were seen to have met the standard requirements, 38 contained partial issues, while other 28 ranked below standard requirement or deemed not applicable.

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

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

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

Various entities have been reminded as their responsibilities to submit 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 financial statements is submitted;
- Officers visiting various entities and held meetings with Chief Executive Officers regarding non-submission of financial statements which drew attention on their responsibilities under the PFMA and the resultant breach of that Act;
- List of outstanding financial statements forwarded to the Public Accounts Committee for necessary action.
- Senior officers of the Division attended various audit committee meetings during the cycle and emphasised the importance of bringing audits up to date. Following audit committee meetings attended by officers during the cycle:
 - Internal Revenue Commission;
 - National Capital District Commission;
 - National Housing Corporation;
 - PNG Customs Service; and
 - Tourism Promotion Authority.
 - University of Papua New Guinea

Targets were set in place that significantly reduced the audits in arrears situation and the entities cleared during the audit cycle. This reduction largely reflects staff members tireless effort to better manage the audits in arrears. But can further be improved through timely submission of financial statements, and, with the entities' management cooperation to clear the arrears. The Covid-19 pandemic posed the challenge in achieving this objective.

Few entities owned by the State have amended their enabling Acts and other legal provisions that excluded Auditor-General's Office from performing audits to these entities that appointed their own auditor's contrary to the Audit Act and the Constitution.

Over a number of years, concerns have been expressed 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. It was considered that a large number of Chief Executive Officers do not pay sufficient attention to financial management in their entities.

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

It is essential that proper accounting records and adequate internal control systems, be in existence in all public entities subject to auditing. This requires the assistance from all CEOs to consider exercising 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 audit recommendations;
- Regular, adequate and timely training on IFMS accounting system.

In the current and prior years, the office had faced lot of challenges which affected much of the mandatory duties. One of which has limited responsibilities is the lack of sufficient funding. As a Constitutional office, there has never been funding assistance through Public Accounts Committee (PAC) and Parliament, but comes through Department of Finance. As a result, funds are either not received on time or are received but insufficient to cater audit operations, and recruitment or employment of qualified auditors.

The rigorous enforcement of the provisions of Section 63 of the PFMA and a legislative requirement be established to make renewal of contracts of Chief Executive Officers subject to submission of financial statements and implementation and maintenance of prudent financial management. Well trained and qualified accounting staff is a criterion to be considered by CEOs to better manage the financial affairs of the organization. This recommendation will improve financial management accountability and good governance in the public sector.

Authorized for release by;

Mr. Gordon Kega - MBA, CPA
Auditor General of Papua New Guinea

● **VISION**
Effective Audit, Gutpela Sindaun

● **MISSION**
Raise confidence in the management of public monies by promoting accountability and transparency.
We do this by strengthening our capacity and establish a good rapport with stakeholders