



Part IV

Report of the Auditor-General

2021

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

27 October 2022

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 27th October 2022 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
Auditor-General

2021 AUDITOR-GENERAL'S REPORT – PART IV

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GENERAL

A. FOREWORD

My Annual Report to the National Parliament for the 2020 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 and associated entities.

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 Development 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) Act, 1995 (as amended)

The submission of the financial statements of statutory bodies for audit is required under *Section 63(1) and (3)* of the *Public Finances (Management) Act, 1995 (as amended)*. 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 *Public Finances (Management) Act (PFMA)* and *Section 3* of the *Audit Act*.

C. AUDIT OF PUBLIC BODIES

C.1 Scope of Audit

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.

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. However, a section has been tasked with the audit of information systems per the recent organisational restructure.

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 and their subsidiaries.

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 2021 to June 2022 (2021/2022 Audit Cycle)**. The Report covers the audits of these entities' financial statements for a number of years, not just 2021.

In **2021** there were **130 public entities** subject to audit by my Office, consisting of **62 Public Bodies** and their **21 Subsidiaries** and **16 National Government Owned Companies** and their **31 Subsidiaries**.

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

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

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

E.3 Submission of current year Financial Statements

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

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

Despite these legislative requirements, **72 entities** had not submitted their **2021 financial statements** to be audited in addition to some **158 financial statements for 2020** and prior years had not been submitted for audit (**Refer Table A**). As compared to last year, the situation has deteriorated during this cycle.

Due to Covid-19 pandemic outbreak, Government response has resulted in various lockdowns and reduced economic activities which has resulted in reduction of current year audits to **4** during 2021/2022 cycle. Further, **47 audits** were either substantially completed, in progress or to commence shortly and **72 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 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 |

Table A above shows that **245 audits** were either completed, substantially completed or still in progress as at 30 June 2022. The details are graphically depicted in **Attachment ‘C’**, which also included the arrears of prior years.

Table A also shows that of the **126 current year audits (2021)**, only **4 were completed**, with **38 audits** were either substantially completed or in progress. A further **9 audits** were to commence shortly. Graphical description of the status of current year 2021 audit units (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 2021 to June 2022) by the audit, **86 audit reports were issued**. Of the **86 audit reports issued, 26 were unqualified, 32 were qualified and 28 were Disclaimer of Opinions**. The details are captured in **Attachment ‘D’**.

Types of Audit Opinions issued for each entity over the period of ten years from **2012 to 2021** are detailed in **Attachment ‘E’**.

Audit reports issued for certain entities have more than one year covered during the period. The recent audit report of these entities is reproduced in this Report. Further information on other years audit reports can be obtained from the minister responsible, the entity or this office.

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, inadequate capacity and competence of staff 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 no proper procedures are being followed in the acquisition and disposal of assets;*
- *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;*

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.

- *Non remittance of taxes to IRC (Group Tax & GST);*
- *Accounting, administrative and procedural manuals not being available;*
- *Employment contracts, salaries and contract gratuities not available; and*
- *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 on or 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 on or before 30 April each year for my audit and inspection. However, out of **130 public entities** only **51 (39%)** entities have submitted their financial statements for 2021 (**Refer Schedule A (i), (ii), (iii) & (iv)**) for my audit and inspection up to the time of preparing this Report. A total of **72** entities have failed to comply with this provision (**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 of entities by the minister responsible to the Parliament (per PFMA).*

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 and those charged with governance 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 the rigorous enforcement of the provisions of Section 63 of the PFMA and a legislative requirement be 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, **52** entities have audit units in arrears totaling **158**. 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 'C'**.

Table B
Financial Statements Not Submitted

| No. | Section | Para. No. | Entity | Year | No. of Audits |
|-----|---------|-----------|--|-------------|---------------|
| 1 | A | 3 | Border Development Authority and its Subsidiary | 2018 & 2019 | 2 |
| 2 | A | 3A. | Papua New Guinea Maritime Transport Limited | 2013 - 2020 | 8 |
| 4 | A | 6A. | Cocoa Pod Borer Project Fund | 2019 - 2020 | 2 |
| 5 | A | 6B. | Cocoa Stabilisation Fund | 2019 - 2020 | 2 |
| 6 | A | 7 | Cocoa Coconut Institute of Papua New Guinea | 2017 & 2018 | 2 |
| 7 | A | 8 | Coffee Industry Corporation Limited and its Subsidiaries | 2020 & 2020 | 1 |
| 8 | A | 8A. | Coffee Industry Fund | 2020 & 2020 | 1 |
| 9 | A | 8B. | Kofi Management Services Limited | 2020 & 2020 | 1 |
| 10 | A | 8C. | Patana No. 61 Limited | 2020 & 2020 | 1 |
| 11 | A | 9 | Conservation and Environment Protection Authority | 2020 & 2020 | 1 |
| 14 | A | 13 | Industrial Centers Development Corporation | 2019 - 2020 | 2 |
| 15 | A | 14 | Internal Revenue Commission. | 2020 & 2020 | 1 |
| 21 | A | 20 | National Agriculture Quarantine & Inspection Authority | 2020 & 2020 | 1 |
| 22 | A | 23 | National Broadcasting Commission Limited | 2019 - 2020 | 2 |
| 24 | A | 24A. | National Capital District Botanical Enterprises Limited | 2013 - 2020 | 8 |
| 26 | A | 26 | National Economic and Fiscal Commission | 2019 - 2020 | 2 |
| 29 | A | 29 | National Gaming Control Board and its Subsidiary | 2020 - 2020 | 1 |
| 30 | A | 29A. | National Gaming Control Board Community Benefit Fund Trust. | 2020 - 2020 | 1 |
| 32 | A | 30A. | National Housing Estate Limited | 2015 - 2020 | 6 |
| 36 | A | 37 | National Volunteer Service | 2017 - 2020 | 4 |
| 37 | A | 38 | National Youth Development Authority | 2018 - 2020 | 3 |
| 38 | A | 39 | Office of the Insurance Commissioner | 2019 - 2020 | 2 |
| 39 | A | 40 | Oil Palm Industry Corporation | 2015 - 2020 | 6 |
| 40 | A | 44 | Papua New Guinea Forest Authority | 2019 - 2020 | 2 |
| 41 | A | 45 | Papua New Guinea Immigration and Citizenship Services Authority | 2018 - 2020 | 3 |
| 43 | A | 49 | Papua New Guinea National Institute Standard Industrial Technology | 2020 & 2020 | 1 |
| 44 | A | 50 | Papua New Guinea Sports Foundation | 2016 - 2020 | 5 |
| 46 | A | 51A. | National Analytical & Testing Services Limited. | 2020 & 2020 | 1 |
| 47 | A | 51B. | Unitech Development and Consultancy Company Limited | 2020 & 2020 | 1 |
| 49 | A | 54 | Public Curator of Papua New Guinea | 2018 - 2020 | 3 |
| 54 | A | 60 | University of Goroka and its Subsidiaries | 2018 - 2020 | 3 |
| 55 | A | 60A. | Unigor Consultancy Limited | 2016 - 2020 | 5 |
| 56 | A | 60B. | Unigor Humi Catering Limited | 2016 - 2020 | 5 |
| 57 | A | 61 | University of Natural Resources & Environment | 2016 - 2020 | 5 |
| 58 | A | 62 | University of Papua New Guinea and its Subsidiaries | 2018 - 2020 | 3 |
| 59 | A | 62A. | Unisave Limited | 2012 - 2020 | 9 |
| 60 | A | 62B. | Univentures Limited | 2012 - 2020 | 9 |
| 61 | A | 63 | Western Pacific University | 2019 - 2020 | 2 |
| 62 | B | 65A. | Air Niugini Cargo Limited | 2019 - 2020 | 2 |
| 63 | B | 65B. | Air Niugini Properties Limited | 2019 - 2020 | 2 |
| 64 | B | 65C. | Business Travel Centre Limited | 2019 - 2020 | 2 |
| 65 | B | 65D. | Link-PNG Limited | 2019 - 2020 | 2 |
| 66 | B | 66 | Kumul Agriculture Limited | 2020 & 2020 | 1 |
| 67 | B | 67C | Kumul Gas Foreland 239 B.V | 2016 - 2020 | 5 |
| 68 | B | 67D | Kumul Gas Foreland 261 B.V | 2017 - 2020 | 4 |

| No. | Section | Para. No. | Entity | Year | No. of Audits |
|-----------|---------|-----------|---|-------------|---------------|
| 69 | B | 67E | Kumul Gas Foreland 268 B.V. | 2017 - 2020 | 4 |
| 70 | B | 67F | Kumul Gas Foreland 269 B.V. | 2017 - 2020 | 4 |
| 71 | B | 67G | Kumul Gas Niugini B.V. | 2017 - 2020 | 4 |
| 72 | B | 68 | Kumul Telikom Holdings Limited and its Subsidiaries | 2018 - 2020 | 3 |
| 73 | B | 69 | Livestock Development Corporation Limited | 2019 - 2020 | 2 |
| 74 | B | 70 | Mineral Resources Development Company Limited | 2020 - 2020 | 1 |
| 78 | B | 75 | PNG Air Services Limited | 2016 - 2020 | 5 |
| 52 | | | | | 158 |

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;
- List of outstanding financial statements were forwarded to the Public Accounts Committee for their necessary action; 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:
 - *Internal Revenue Commission;*
 - *National Capital District Commission;*
 - *National Housing Corporation;*
 - *PNG Customs Service; and*
 - *Tourism Promotion Authority.*

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 health pandemic (Covid-19) has posed 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. 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.*”

E.8 Non-Compliance with the Audit Act 1989

Some entities owned by the State have amended their enabling Acts and other legal provisions 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 compliance to internal controls. These deficiencies, which contributed to the limitation on the scope of my audit procedures, included:

- Bank, Creditors and other 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;
- Asset stock-takes not being carried out resulting no proper transfer and consistent valuation of assets;
- Property being acquired or disposed of without proper procedures being followed and lack of timely recovery and disposal of Assets;
- Failure to comply with International Financial Reporting Standards in the preparation of the financial statements;
- Breach of Public Finances Management and other statutory provisions;
- Entities paying housing allowances and Board members allowances without tax;
- Accounting, administrative and procedural manuals not being available;
- Ineffective or no internal audit functions;
- Liabilities as at the wind-up could not be verified of their validity and completeness;
- No proper control mechanisms within the revenue and expenditure cycle;
- No proper control, monitoring and recovery of staff Advances and Trade Debtors;
- Issues surrounding Information Technology (IT) Systems;

- Human Resource, Accountant and Financial Consultant capabilities; and
- Ineffective budget controls.

The above factors contributed to the limitations on the scope of my audits which have been reported in accordance with Section 8(2) of the Audit Act, 1989 (as amended) and resulted in the issuance of Types of Opinion in respect of reports issued during the year, as shown in **Attachment ‘D’**.

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 IFMS accounting system.*

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;

- Parliament must increase its reviews of the management of public entities and provide Chief Executive Officers with incentives to improve their management structures;
- Appointing Boards that are result oriented and service driven; and
- Regular performance reviews on entities and those charged with governance.

E.13 Project Audits

My Office is also tasked to undertake projects audits. However, these are special purpose financial statement audits and directed to specific stakeholders thus reported separately.

All projects funded are under loan agreement with Asian Development Bank (ADB), World Bank (WB), Japan International Cooperation Agency (JICA) and International Fund for Agricultural Development (IFAD) programs it covers Works and Implementation, Water and Sanitation programs, Climate and Maritime Safety programs, Energy Sector programs and Social and Economic Sector Development programs.

E.14 Creation, Amalgamation and Abolishment of Entities

Over the years I have been observing a number of entities being created and later abolished, amalgamated or restructured. The challenges faced by my Office is that soon after creation, amalgamation or winding-up/abolishment, whether through Acts of Parliament or executive directives, these entities do not communicate to my Office for me to exercise my mandated responsibilities. Most of the times, I am placed in situations where I could not determine the actual efforts and resources put into creation of such entities and unfortunately could not do the same when the entities wind-up or cease to exist by decisions of the executive government. The cost and benefits of such actions at this stage could not be correctly ascertained by me.

E.15 Challenges Face by My Office

During the year and prior years, my office had faced a lot of challenges which had affected much of my mandatory duties. One which has limited my responsibilities is lack of sufficient funding. As a Constitutional office, I have not received any funding through Public Accounts Committee (PAC) and Parliament but only through Department of Finance. As a result, necessary funding were not received on time and funding received is not sufficient enough to cater for my operations, specifically, to fund recruitment or employing qualified auditors.

E.16 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).

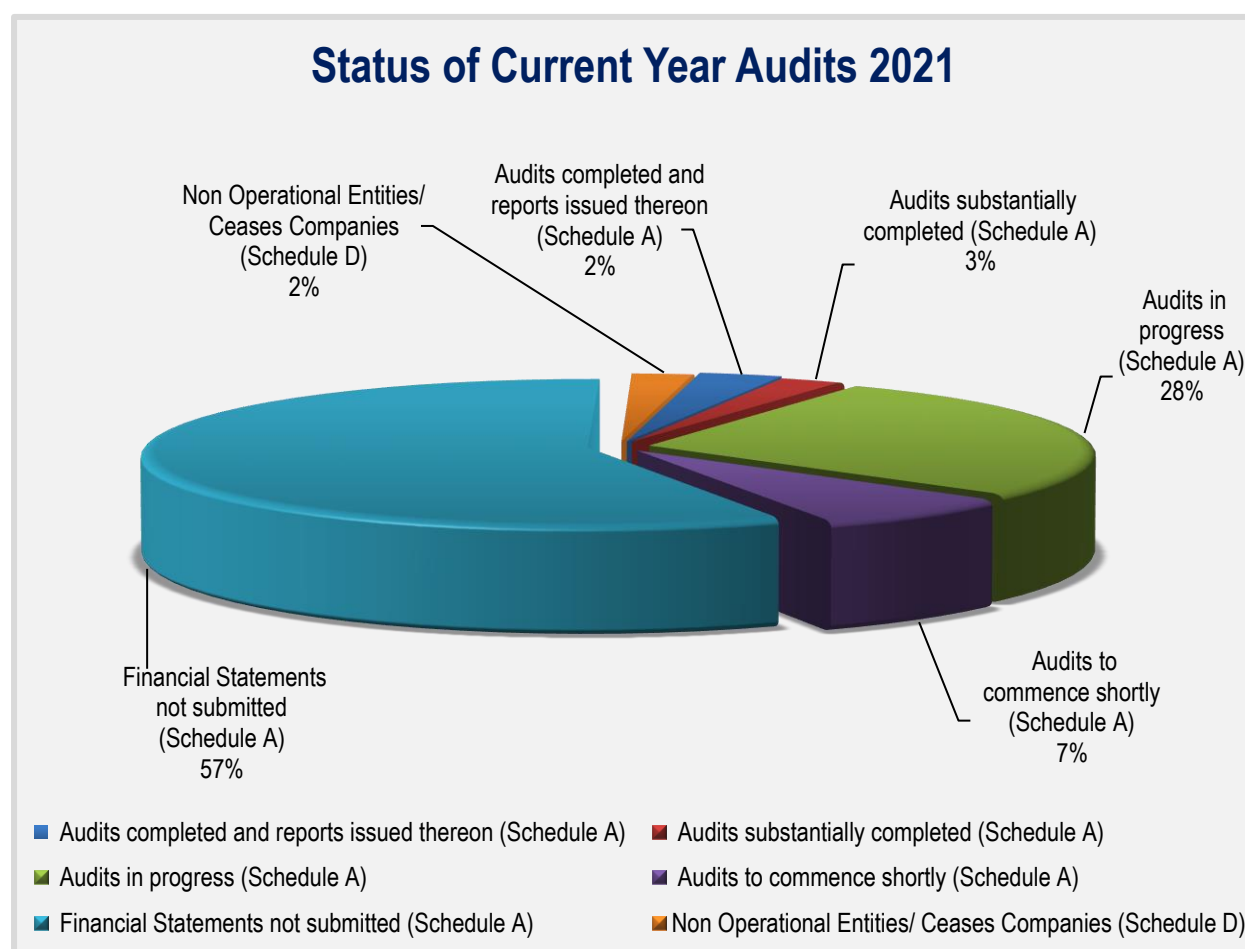
ATTACHMENT 'A'

STATUS OF CURRENT YEAR AUDITS 2021 BY ENTITIES

Table 2

| No. | Status of Current Year Audits | Number of Entities | |
|-----|--|--------------------|-------------|
| | | 2021 Report | 2020 Report |
| 1 | Audits completed and reports issued thereon (Schedule A) | 4 | 3 |
| 2 | Audits substantially completed (Schedule A) | 3 | 0 |
| 3 | Audits in progress (Schedule A) | 35 | 38 |
| 4 | Audits to commence shortly (Schedule A) | 9 | 10 |
| 5 | Financial Statements not submitted (Schedule A) | 72 | 69 |
| 6 | Non Operational Entities/ Ceases Companies (Schedule D) | 3 | 7 |
| | | 126 | 127 |

Chart 2



Please refer to details in Schedule 'A' on Pages 413 to 415 and Schedule 'D' on Page 423.

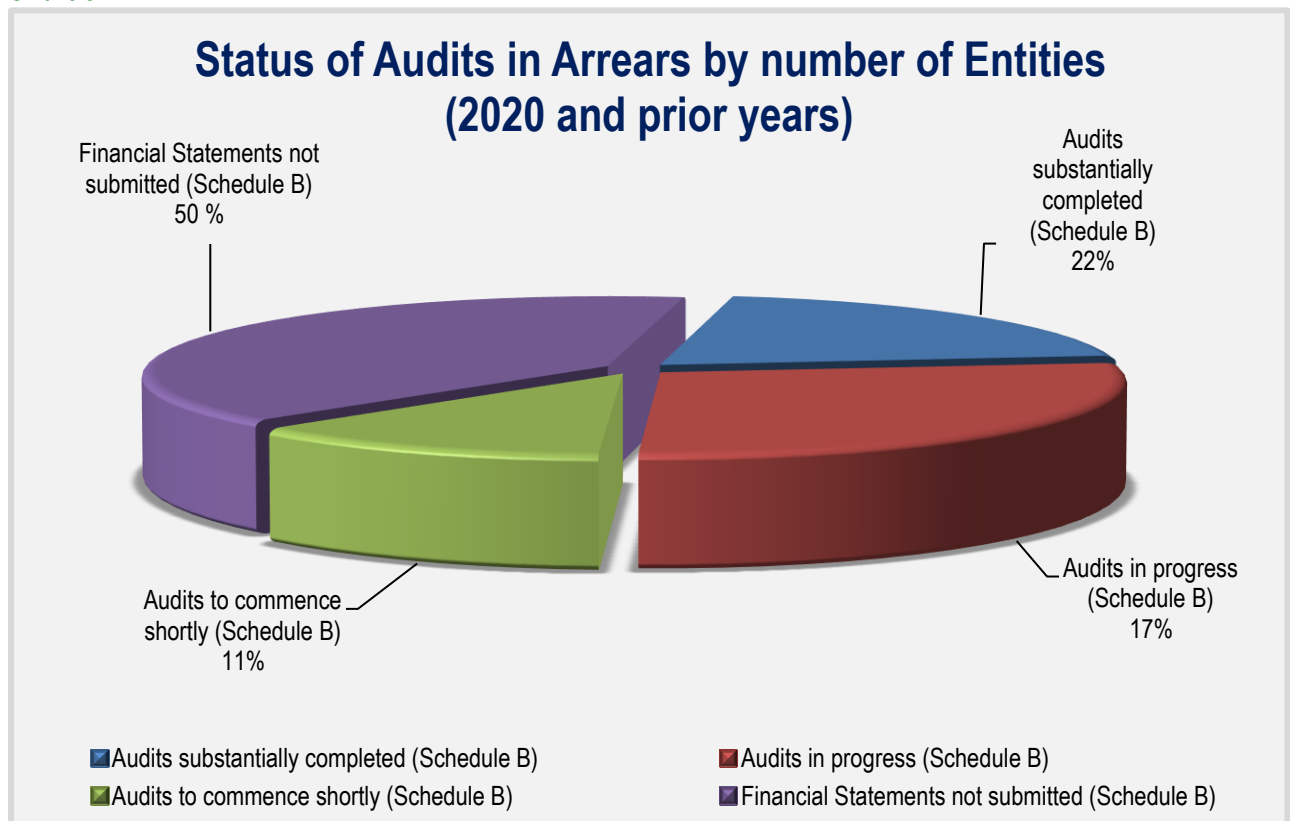
ATTACHMENT 'B'

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2020 AND PRIOR YEARS)

Table 3A

| No. | Status of Audits in Arrears by No. of Entities (2020 and Prior Years) | Number of Entities | |
|-----|---|--------------------|-------------|
| | | 2021 Report | 2020 Report |
| 1 | Audits substantially completed (Schedule B) | 68 | 61 |
| 2 | Audits in progress (Schedule B) | 53 | 45 |
| 3 | Audits to commence shortly (Schedule B) | 36 | 34 |
| 4 | Financial Statements not submitted (Schedule B) | 158 | 128 |
| | | 315 | 268 |

Chart 3A

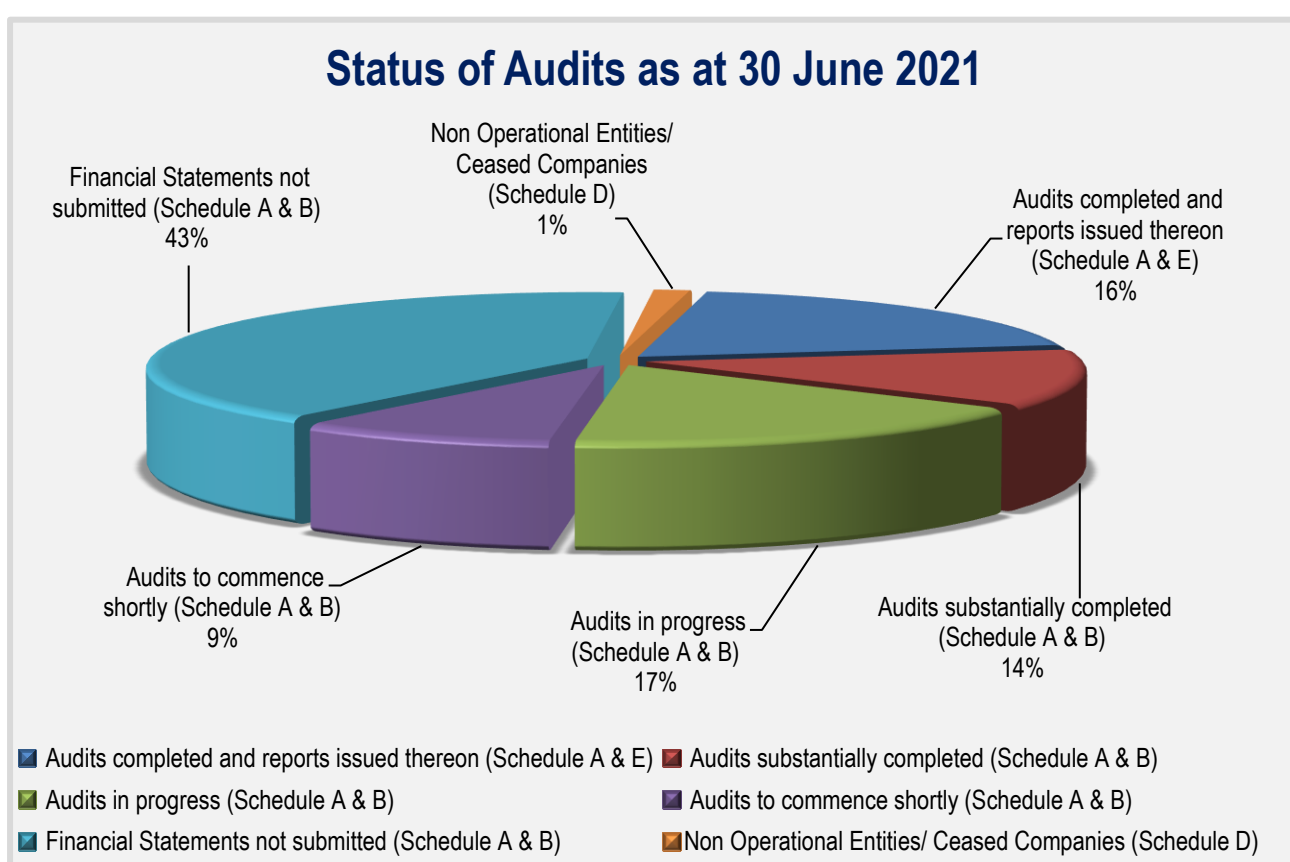


Please refer to details in Schedule 'B' on Pages 416 to 419.

ATTACHMENT 'C'

STATUS OF AUDITS AS AT 30 JUNE 2021

| No. | Status of Audits | Number of Audits | |
|-----|---|------------------|-------------|
| | | 2021 Report | 2020 Report |
| 1 | Audits completed and reports issued thereon (Schedules A & E) | 86 | 95 |
| 2 | Audits substantially completed (Schedules A & B) | 71 | 61 |
| 3 | Audits in progress (Schedules A & B) | 88 | 83 |
| 4 | Audits to commence shortly (Schedules A & B) | 45 | 44 |
| 5 | Financial Statements not submitted (Schedules A & B) | 230 | 197 |
| 6 | Non Operational Entities/Ceased Companies (Schedule D) | 6 | 7 |
| | | 526 | 487 |



Please refer to details in Schedules 'A', 'B' and 'E' on Pages 415 to 417, 418 to 421 and 426 to 428 respectively.

ATTACHMENT 'D'

TYPES OF AUDIT OPINIONS ISSUED

(i) UNQUALIFIED OPINION

| No. | Section | Para No. | Entity | Year(s) | No. Audits Issued |
|-----|---------|----------|--|-------------|-------------------|
| 1 | A | 2 | Bank of Papua New Guinea | 2020 | 1 |
| 2 | A | 6B. | Cocoa Stabilisation Fund | 2018 | 1 |
| 3 | A | 11 | Independent Fellowship Trust | 2020 | 1 |
| 4 | A | 15 | Investment Promotion Authority | 2020 | 1 |
| 5 | A | 16 | Kokonas Industri Koporesen | 2020 | 1 |
| 6 | A | 17 | Kumul Consolidated Holdings | 2020 | 1 |
| 7 | A | 17B. | Kumul Technology Development Corporation Limited | 2020 | 1 |
| 8 | A | 17C. | PNG Dams Limited | 2020 | 1 |
| 9 | A | 22 | National AIDS Council Secretariat | 2020 | 1 |
| 10 | A | 24B. | Port Moresby Nature Park Limited | 2018 | 1 |
| 11 | A | 33 | National Museum & Art Gallery | 2020 | 1 |
| 12 | A | 42 | Papua New Guinea Accident Investigation Commission | 2021 | 1 |
| 13 | A | 46 | Papua New Guinea Institute of Medical Research | 2020 | 1 |
| 14 | A | 51 | Papua New Guinea University of Technology | 2018 | 1 |
| 15 | A | 55 | Road Traffic Authority | 2019 & 2020 | 2 |
| 16 | A | 56 | Securities Commission of Papua New Guinea | 2019 & 2020 | 2 |
| 17 | B | 67 | Kumul Petroleum Holdings Limited | 2019 | 1 |
| 18 | B | 67I | Kumul LNG Limited | 2019 | 1 |
| 19 | B | 67K | Kumul Petroleum (Investments) Limited | 2019 | 1 |
| 20 | B | 67M | Kumul Petroleum (Pipeline) Limited | 2019 | 1 |
| 21 | B | 67N | Kumul Petroleum (Tech and Advisory) Limited | 2019 | 1 |
| 22 | B | 70 | Mineral Resources Development Company Limited | 2017 & 2018 | 2 |
| 23 | B | 71B. | Pacific Re Limited | 2021 | 1 |
| 24 | B | 76 | PNG DataCo Limited | 2020 | 1 |
| 25 | B | 79A. | DATEC (PNG) Limited | 2020 | 1 |

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(ii) QUALIFIED OPINION

| No. | Section | Para No. | Entity | Year(s) | No. Audits Issued |
|-----|---------|----------|---|-------------|-------------------|
| 1 | A | 2 | Bank of Papua New Guinea | 2021 | 1 |
| 2 | A | 5 | Climate Change and Development Authority | 2018 & 2019 | 2 |
| 3 | A | 6 | Cocoa Board of Papua New Guinea | 2018 | 1 |
| 4 | A | 6A. | Cocoa Pod Borer Project Fund | 2018 | 1 |
| 5 | A | 17A. | General Business Trust | 2020 | 1 |
| 6 | A | 18 | Legal Training Institute | 2020 | 1 |
| 7 | A | 19 | Mineral Resources Authority | 2019 & 2020 | 2 |
| 8 | A | 24 | National Capital District Commission | 2019 | 1 |
| 9 | A | 25 | National Cultural Commission | 2020 | 1 |
| 10 | A | 29 | National Gaming Control Board | 2016 | 1 |
| 11 | A | 29A. | National Gaming Control Board Community Benefit Fund Trust. | 2016 | 1 |
| 12 | A | 31 | National Information and Communication Technology Authority | 2017 | 1 |
| 13 | A | 43 | Papua New Guinea Customs Service | 2017 & 2018 | 2 |
| 14 | A | 48 | Papua New Guinea Maritime College | 2020 & 2021 | 2 |

| No. | Section | Para No. | Entity | Year(s) | No. Audits Issued |
|-----|---------|----------|--|-------------|-------------------|
| 15 | A | 49 | Papua New Guinea National Institute Standard Industrial Technology | 2017 - 2019 | 3 |
| 16 | A | 51A. | National Analytical & Testing Services Limited. | 2013 - 2017 | 5 |
| 17 | B | 67L | Kumul Petroleum (Kroton) Limited | 2019 | 1 |
| 18 | B | 71 | Motor Vehicles Insurance Limited | 2020 | 1 |
| 19 | B | 74 | Papua New Guinea Ports Corporation Limited | 2020 | 1 |
| 20 | B | 78 | Post (PNG) Limited | 2020 | 1 |
| 21 | B | 79C | Media Niugini Limited (EMTV) | 2018 & 2019 | 2 |

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(iii) DISCLAIMER OPINION

| No. | Section | Para No. | Entity | Year(s) | No. Audits Issued |
|-----|---------|----------|---|-------------|-------------------|
| 1 | A | 14 | Internal Revenue Commission. | 2016 & 2017 | 2 |
| 2 | A | 40 | Oil Palm Industry Corporation | 2013 | 1 |
| 3 | A | 44 | Papua New Guinea Forest Authority | 2015 | 1 |
| 4 | A | 60B. | Unigor Humi Catering Limited | 2011 - 2015 | 5 |
| 5 | A | 62 | University of Papua New Guinea | 2015 | 1 |
| 6 | B | 65 | Air Niugini Limited | 2016 - 2020 | 5 |
| 7 | B | 66 | Kumul Agriculture Limited | 2019 | 1 |
| 8 | B | 68A. | Bmobile Limited | 2018 - 2020 | 3 |
| 9 | B | 73 | NCD Water and Sewerage Limited (Eda Ranu) | 2019 | 1 |
| 10 | B | 77 | PNG Power Limited | 2018 | 1 |
| 11 | B | 79 | Telikom (PNG) Limited | 2019 & 2020 | 2 |
| 12 | B | 79B. | Kalang Advertising Limited | 2020 | 1 |
| 13 | B | 80 | Water PNG Limited | 2019 & 2020 | 2 |

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(iv) ADVERSE OPINION

| No. | Section | Para No. | Entity | Year(s) | No. Audits Issued |
|-----|---------|----------|--------|---------|-------------------|
| 1 | | | | | |

0

ATTACHMENT 'E'

COMPARATIVE AUDIT OPINIONS ISSUED (2012–2021)

| No. | Section | Para. No. | Entity | Comparative Years | | | | | | | | | | |
|-----|---------|-----------|--|-------------------|---------------|------|------|------|------|------|------|------|------|--|
| | | | | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | |
| 1 | A | 2 | Bank of Papua New Guinea | Q | UQ | UQ | UQ | UQ | UQ | UQ | UQ | UQ | | |
| 2 | A | 3 | Border Development Authority | | | | | | | | | D | | |
| 3 | A | 3A | Papua New Guinea Maritime Transport Limited | | | | | | | | | | | |
| 4 | A | 4 | Civil Aviation Safety Authority of Papua New Guinea | | Q | Q | Q | Q | Q | Q | Q | Q | | |
| 5 | A | 5 | Climate Change and Development Authority | | | Q | Q | Q | D | D | D | D | | |
| 6 | A | 6 | Cocoa Board of Papua New Guinea | | | | Q | Q | Q | Q | Q | Q | | |
| 7 | A | 6A | Cocoa Pod Borer Project Fund | | | | Q | Q | Q | UQ | UQ | UQ | | |
| 8 | A | 6B | Cocoa Stabilisation Fund | | | | UQ | UQ | UQ | UQ | UQ | UQ | | |
| 9 | A | 7 | Cocoa Coconut Institute Limited of Papua New Guinea | | | | | | D | D | D | D | | |
| 10 | A | 8 | Coffee Industry Corporation Limited | | | | D | D | D | D | D | D | | |
| 11 | A | 8A | Coffee Industry Fund | | | | D | D | D | D | D | D | | |
| 12 | A | 8B | Kofi Management Services Limited | | New Inclusion | | | | | | | | | |
| 13 | A | 8C | Patana No.61 Limited | | | | D | D | D | D | D | D | | |
| 14 | A | 9 | Conservation and Environment Protection Authority | | | | | Q | | | | | | |
| 15 | A | 10 | Government Printing Office | | | | | D | D | D | D | D | | |
| 16 | A | 11 | Independence Fellowship Trust | | UQ | UQ | UQ | UQ | UQ | Q | Q | UQ | | |
| 17 | A | 12 | Independent Consumer and Competition Commission | | | UQ | UQ | UQ | UQ | Q | Q | UQ | | |
| 18 | A | 13 | Industrial Centres Development Corporation | | | | Q | Q | Q | Q | Q | Q | | |
| 19 | A | 14 | Internal Revenue Commission | | | | | D | D | UQ | UQ | | | |
| 20 | A | 15 | Investment Promotion Authority | | UQ | UQ | UQ | UQ | UQ | UQ | UQ | UQ | | |
| 21 | A | 16 | Kokonasi Industri Koporesen | | UQ | UQ | UQ | UQ | UQ | UQ | UQ | UQ | | |
| 22 | A | 16A | Papua New Guinea Coconut Extension Fund | | | | UQ | UQ | UQ | UQ | UQ | UQ | | |
| 23 | A | 16B | Papua New Guinea Coconut Research Fund | | | | UQ | UQ | UQ | UQ | UQ | UQ | | |
| 24 | A | 17 | Kumul Consolidated Holdings | | UQ | UQ | UQ | UQ | UQ | UQ | UQ | UQ | | |
| 25 | A | 17A | General Business Trust | | Q | Q | Q | Q | Q | Q | Q | D | | |
| 26 | A | 17B | Kumul Technology Development Corporation Limited | | UQ | Q | Q | Q | Q | D | D | D | | |
| 27 | A | 17C | PNG Dams Limited | | UQ | UQ | UQ | UQ | UQ | Q | D | D | | |
| 28 | A | 18 | Legal Training Institute | | Q | Q | Q | Q | Q | Q | Q | Q | | |
| 29 | A | 19 | Mineral Resources Authority | | Q | Q | Q | Q | Q | Q | Q | Q | | |
| 30 | A | 20 | National Agriculture Quarantine and Inspection Authority | | | | | Q | Q | Q | Q | Q | | |
| 31 | A | 21 | National Agricultural Research Institute | | UQ | UQ | UQ | UQ | UQ | UQ | UQ | UQ | | |
| 32 | A | 22 | National AIDS Council Secretariat | | UQ | Q | Q | UQ | UQ | Q | D | D | | |
| 33 | A | 23 | National Broadcasting Corporation | | | | | | D | D | D | D | | |
| 34 | A | 24 | National Capital District Commission | | | Q | D | D | D | D | D | D | | |
| 35 | A | 24A | National Capital District Botanical Enterprises Limited | | | | UQ | | | | | | | |
| 36 | A | 24B | Port Moresby Nature Park Limited | | | | | UQ | UQ | UQ | UQ | Q | | |
| 37 | A | 25 | National Cultural Commission | | Q | Q | Q | D | D | D | D | D | | |
| 38 | A | 26 | National Economic and Fiscal Commission | | | | UQ | UQ | Q | Q | Q | Q | | |
| 39 | | 27 | National Energy Authority | | | | | | | | | | | |
| 40 | A | 28 | National Fisheries Authority | | | | D | D | D | Q | Q | Q | | |

| No. | Section | Para. No. | Entity | Comparative Years | | | | | | | | | |
|-----|---------|-----------|--|-------------------|------|------|------|------|------|------|------|------|------|
| | | | | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| 41 | A | 29 | National Gaming Control Board | | | | | | Q | Q | Q | Q | |
| 42 | A | 29A | National Gaming Control Board Community Benefit Fund Trust | | | | | | Q | Q | Q | Q | |
| 43 | A | 30 | National Housing Corporation | | | | | | | | D | D | |
| 44 | A | 30A | National Housing Estate Limited | | | | | | | | | | |
| 45 | A | 31 | National Information and Communications Technology Authority (NICTA) | | | | | Q | Q | D | D | D | |
| 46 | A | 32 | National Maritime Safety Authority | | | UQ | UQ | UQ | UQ | UQ | Q | Q | |
| 47 | A | 33 | National Museum and Art Gallery | | UQ | UQ | Q | D | D | D | D | D | |
| 48 | A | 34 | National Research Institute | | | | | Q | Q | UQ | UQ | UQ | |
| 49 | A | 35 | National Roads Authority | | | UQ | UQ | UQ | UQ | UQ | Q | Q | |
| 50 | A | 36 | National Training Council | | | Q | Q | Q | Q | Q | Q | Q | |
| 51 | A | 37 | National Volunteer Service | | | | | | Q | Q | Q | Q | |
| 52 | A | 38 | National Youth Development Authority | | | | | D | D | D | D | D | |
| 53 | A | 39 | Office of the Insurance Commissioner | | | | D | | | | | | |
| 54 | A | 40 | Oil Palm Industry Corporation | | | | | | | | | D | D |
| 55 | A | 41 | Ombudsman Commission of Papua New Guinea | | | | Q | Q | Q | UQ | Q | UQ | |
| 56 | A | 42 | Papua New Guinea Accident Investigation Commission | UQ | UQ | Q | Q | UQ | UQ | UQ | UQ | UQ | |
| 57 | A | 43 | Papua New Guinea Customs Service | | | | Q | Q | Q | Q | Q | | |
| 58 | A | 44 | Papua New Guinea Forest Authority | | | | | | | D | D | D | |
| 59 | A | 45 | Papua New Guinea Immigration and Citizenship Service Authority | | | | | UQ | Q | D | D | Q | |
| 60 | A | 46 | Papua New Guinea Institute of Medical Research | | UQ | UQ | Q | Q | Q | D | D | D | |
| 61 | A | 47 | Pacific Institute of Leadership and Governance | | | | | Q | Q | Q | Q | Q | |
| 62 | A | 48 | Papua New Guinea Maritime College | Q | Q | Q | Q | Q | Q | Q | D | D | |
| 63 | A | 49 | Papua New Guinea National Institute of Standards and Industrial Technology | | | Q | Q | Q | Q | Q | Q | Q | |
| 64 | A | 50 | Papua New Guinea Sports Foundation | | | | | | | D | D | D | |
| 65 | A | 51 | Papua New Guinea University of Technology | | | | UQ | UQ | UQ | UQ | Q | Q | |
| 66 | A | 51A | National Analytical and Testing Services Limited | | | | | Q | Q | Q | Q | Q | Q |
| 67 | A | 51B | Unitech Development and Consultancy Company Limited | | | | | | | | | A | |
| 68 | A | 52 | Parliamentary Members' Retirement Benefits Fund | | | | | | UQ | UQ | UQ | UQ | |
| 69 | | 53 | PNG Road Fund | | | | | | | | | | |
| 70 | A | 54 | Public Curator of Papua New Guinea | | | | | | | | | D | |
| 71 | A | 55 | Road Traffic Authority | | UQ | UQ | UQ | UQ | UQ | UQ | UQ | UQ | |
| 72 | | 56 | Securities Commission of Papua New Guinea | | UQ | UQ | | | | | | | |
| 73 | A | 57 | Security Industries Authority | | | | | | Q | Q | Q | Q | |
| 74 | A | 58 | Small and Medium Enterprises Corporation | | | | | Q | Q | Q | Q | Q | |
| 75 | A | 59 | Tourism Promotion Authority | | | | UQ | UQ | UQ | UQ | UQ | UQ | |
| 76 | A | 60 | University of Goroka | | | | | D | D | D | D | D | |
| 77 | A | 60A | Unigor Consultancy Limited | | | | | | | D | D | D | |
| 78 | A | 60B | Unigor Humi Catering Limited | | | | | | | D | D | D | D |
| 79 | A | 61 | University of Natural Resources and Environment | | | | | | | | D | Q | |
| 80 | A | 62 | University of Papua New Guinea | | | | | | | D | Q | Q | |
| 81 | A | 62A | Unisave Limited | | | | | | | | | | |
| 82 | A | 62B | Univentures Limited | | | | | | | | | | |

| No. | Section | Para. No. | Entity | Comparative Years | | | | | | | | | | | | | | | | | |
|-----|---------|-----------|---|-------------------|--|------|------|------|------|------|------|------|------|--|--|--|--|--|--|--|--|
| | | | | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | | | | | | | | |
| 83 | A | 63 | Western Pacific University | | | | | | | | | | | | | | | | | | |
| 84 | B | 65 | Air Niugini Limited | | D | D | D | D | D | D | Q | Q | Q | | | | | | | | |
| 85 | B | 65A | Air Niugini Cargo Limited | | No reports issued since 2017 | | | | | | | | | | | | | | | | |
| 86 | B | 65B | Air Niugini Properties Limited | | No reports issued since 2018 | | | | | | | | | | | | | | | | |
| 87 | B | 65C | Business Travel Centre Limited | | No reports issued since 2017 | | | | | | | | | | | | | | | | |
| 88 | B | 65D | Link-PNG Limited | | | | | | | | UQ | | | | | | | | | | |
| 89 | B | 66 | Kumul Agriculture Limited | | | D | A | A | A | A | A | A | | | | | | | | | |
| 90 | B | 67 | Kumul Petroleum Holdings Limited | | | UQ | UQ | UQ | UQ | UQ | UQ | UQ | | | | | | | | | |
| 91 | B | 67A | Eda Oil Limited | | | | UQ | UQ | UQ | UQ | | | | | | | | | | | |
| 92 | B | 67B | Kumul Exploration (Asia) Limited | | | | UQ | UQ | | | | | | | | | | | | | |
| 93 | B | 67C | Kumul Gas Foreland 239 B.V | | No reports have been issued since 2017 | | | | | | | | | | | | | | | | |
| 94 | B | 67D | Kumul Gas Foreland 261 B.V | | No reports have been issued since 2018 | | | | | | | | | | | | | | | | |
| 95 | B | 67E | Kumul Gas Foreland 268 B.V | | No reports have been issued since 2019 | | | | | | | | | | | | | | | | |
| 96 | B | 67F | Kumul Gas Foreland 269 B.V | | No reports have been issued since 2020 | | | | | | | | | | | | | | | | |
| 97 | B | 67G | Kumul Gas Niugini B.V | | No reports have been issued since 2021 | | | | | | | | | | | | | | | | |
| 98 | B | 67H | Kumul Lending Co Pte Limited | | | | UQ | UQ | | | | | | | | | | | | | |
| 99 | B | 67I | Kumul LNG Limited | | | UQ | UQ | UQ | UQ | UQ | UQ | UQ | | | | | | | | | |
| 100 | B | 67J | Kumul Petroleum (Development) Limited | | | | | | | UQ | UQ | UQ | | | | | | | | | |
| 101 | B | 67K | Kumul Petroleum (Investments) Limited | | | UQ | UQ | UQ | UQ | UQ | UQ | UQ | | | | | | | | | |
| 102 | B | 67L | Kumul Petroleum (Kroton) Limited | | | Q | UQ | UQ | UQ | UQ | | | | | | | | | | | |
| 103 | B | 67M | Kumul Petroleum (Pipeline) Limited | | | UQ | UQ | UQ | UQ | UQ | | | | | | | | | | | |
| 104 | B | 67N | Kumul Petroleum (Tech and Advisory) Limited | | | UQ | UQ | UQ | UQ | UQ | UQ | | | | | | | | | | |
| 105 | B | 67O | Kumul Petroleum Marketing Pte Limited | | | | UQ | UQ | | | | | | | | | | | | | |
| 106 | B | 67P | Kumul Security Agent Limited | | | | UQ | UQ | | | | | | | | | | | | | |
| 107 | B | 67Q | NPCP Oil Company Pty Limited | | | | | | | | | | | | | | | | | | |
| 108 | B | 68 | Kumul Telikom Holdings Limited | | New Inclusion | | | | | | | | | | | | | | | | |
| 109 | B | 68A | Bemobile Limited | | D | D | D | | | | | | | | | | | | | | |
| 110 | B | 68A.1 | Bemobile (Solomon Islands) Limited | | | | | | | | | | | | | | | | | | |
| 111 | B | 69 | Livestock Development Corporation Limited | | | | | | | | | | | | | | | | | | |
| 112 | B | 70 | Mineral Resources Development Company Limited | | | | Q | Q | Q | Q | D | D | D | | | | | | | | |
| 113 | B | 71 | Motor Vehicles Insurance Limited | | Q | Q | Q | UQ | UQ | UQ | Q | Q | Q | | | | | | | | |
| 114 | B | 71A | Pacific MMI Insurance Limited | | New Inclusion | | | | | | | | | | | | | | | | |
| 115 | B | 71B | Pacific Re Limited | UQ | New Inclusion | | | | | | | | | | | | | | | | |
| 116 | B | 72 | National Airports Corporation Limited | | | D | D | D | Q | Q | Q | Q | Q | | | | | | | | |
| 117 | B | 72A | Airport City Development Limited | | | | D | D | D | D | D | D | D | | | | | | | | |
| 118 | B | 72B | Airports Investments Limited | | | | UQ | UQ | UQ | UQ | | | | | | | | | | | |
| 119 | B | 73 | NCD Water and Sewerage Limited (Eda Ranu) | | | D | D | D | Q | Q | Q | Q | Q | | | | | | | | |
| 120 | B | 74 | Papua New Guinea Ports Corporation Limited | | Q | Q | Q | UQ | UQ | UQ | UQ | UQ | UQ | | | | | | | | |
| 121 | B | 75 | PNG Air Services Limited | | | | | | | | Q | Q | Q | | | | | | | | |
| 122 | B | 76 | PNG DataCo Limited | | UQ | UQ | UQ | UQ | UQ | Q | Q | UQ | | | | | | | | | |
| 123 | B | 77 | PNG Power Limited | | | | D | D | D | D | D | D | D | | | | | | | | |
| 124 | B | 78 | Post (PNG) Limited | | Q | UQ | UQ | UQ | UQ | UQ | UQ | UQ | UQ | | | | | | | | |
| 125 | B | 79 | Telikom (PNG) Limited | | D | D | D | D | D | D | D | Q | Q | | | | | | | | |
| 126 | B | 79A | DATEC (PNG) Limited | | UQ | UQ | UQ | UQ | UQ | UQ | UQ | UQ | UQ | | | | | | | | |
| 127 | B | 79B | Kalang Advertising Limited | | D | Q | Q | Q | UQ | UQ | UQ | UQ | UQ | | | | | | | | |
| 128 | B | 79C | Media Niugini Limited (EMTV) | | | D | D | UQ | UQ | | | | | | | | | | | | |
| 129 | B | 79D | PNG Directories Limited | | | D | Q | UQ | UQ | UQ | UQ | UQ | UQ | | | | | | | | |
| 130 | B | 80 | Water PNG Limited | | D | D | D | D | D | D | D | D | D | | | | | | | | |

ATTACHMENT 'F'

AUDITS IN ARREARS (2020 AND PRIOR YEARS) COMPLETED DURING 2021/2022
AUDIT CYCLE

| No. | Section | Para No. | Entity | Audits Completed and Reports Issued | Total Units | Audits Substantially Completed | Total Units |
|-----|---------|----------|--|-------------------------------------|-------------|--------------------------------|-------------|
| 1 | A | 2 | Bank of Papua New Guinea | 2020 | 1 | | 0 |
| 2 | A | 3 | Border Development Authority | | 0 | 2014 | 1 |
| 3 | A | 3A | Papua New Guinea Maritime Transport Limited | | 0 | | 0 |
| 4 | A | 4 | Civil Aviation Safety Authority of Papua New Guinea | | 0 | | 1 |
| 5 | A | 5 | Climate Change and Development Authority | 2018 & 2019 | 2 | | 0 |
| 6 | A | 6 | Cocoa Board of Papua New Guinea | 2018 | 1 | | 0 |
| 7 | A | 6A | Cocoa Pod Borer Project Fund | 2018 | 1 | | 0 |
| 8 | A | 6B | Cocoa Stabilisation Fund | 2018 | 1 | | 0 |
| 9 | A | 7 | Cocoa Coconut Institute Limited of Papua New Guinea | | 0 | | 0 |
| 10 | A | 8 | Coffee Industry Corporation Limited | | 0 | 2019 | 1 |
| 11 | A | 8A | Coffee Industry Fund | | 0 | 2019 | 1 |
| 12 | A | 8B | Kofi Management Services Limited | | 0 | 2019 | 1 |
| 13 | A | 8C | Patana No.61 Limited | | 0 | 2019 | 1 |
| 14 | A | 9 | Conservation and Environment Protection Authority | | 0 | 2018 | 1 |
| 15 | A | 10 | Government Printing Office | | 0 | 2018 - 2020 | 3 |
| 16 | A | 11 | Independence Fellowship Trust | 2020 | 1 | | 0 |
| 17 | A | 12 | Independent Consumer and Competition Commission | | 0 | | 0 |
| 18 | A | 13 | Industrial Centres Development Corporation | | 0 | | 0 |
| 19 | A | 14 | Internal Revenue Commission | 2016 & 2017 | 2 | | 0 |
| 20 | A | 15 | Investment Promotion Authority | 2020 | 1 | | 0 |
| 21 | A | 16 | Kokonas Industri Koporesen | 2020 | 1 | | 0 |
| 22 | A | 16A | Papua New Guinea Coconut Extension Fund | | 0 | | 0 |
| 23 | A | 16B | Papua New Guinea Coconut Research Fund | | 0 | | 0 |
| 24 | A | 17 | Kumul Consolidated Holdings | 2020 | 1 | | 0 |
| 25 | A | 17A | General Business Trust | 2020 | 1 | | 0 |
| 26 | A | 17B | Kumul Technology Development Corporation Limited | 2020 | 1 | | 0 |
| 27 | A | 17C | PNG Dams Limited | 2020 | 1 | | 0 |
| 28 | A | 18 | Legal Training Institute | 2020 | 1 | | 0 |
| 29 | A | 19 | Mineral Resources Authority | 2019 & 2020 | 2 | | 0 |
| 30 | A | 20 | National Agriculture Quarantine and Inspection Authority | | 0 | 2018 | 1 |
| 31 | A | 21 | National Agricultural Research Institute | | 0 | | 1 |
| 32 | A | 22 | National AIDS Council Secretariat | 2020 | 1 | | 0 |
| 33 | A | 23 | National Broadcasting Corporation | | 0 | 2017 | 1 |
| 34 | A | 24 | National Capital District Commission | 2019 | 1 | | 0 |
| 35 | A | 24A | National Capital District Botanical Enterprises Limited | | 0 | | 0 |
| 36 | A | 24B | Port Moresby Nature Park Limited | 2018 | 1 | | 0 |
| 37 | A | 25 | National Cultural Commission | 2020 | 1 | | 0 |
| 38 | A | 26 | National Economic and Fiscal Commission | | 0 | | 0 |
| 39 | | 27 | National Energy Authority | | 0 | | 0 |
| 40 | A | 28 | National Fisheries Authority | | 0 | | 0 |
| 41 | A | 29 | National Gaming Control Board | 2015 | 1 | | 0 |
| 42 | A | 29A | National Gaming Control Board Community Benefit Fund Trust | 2015 | 1 | | 0 |

| No. | Section | Para No. | Entity | Audits Completed and Reports Issued | Total Units | Audits Substantially Completed | Total Units |
|-----|---------|----------|--|-------------------------------------|-------------|--------------------------------|-------------|
| 43 | A | 30 | National Housing Corporation | | 0 | | 0 |
| 44 | A | 30A | National Housing Estate Limited | | 0 | 2010 - 2014 | 5 |
| 45 | A | 31 | National Information and Communications Technology Authority (NICTA) | 2017 | 1 | | 0 |
| 46 | A | 32 | National Maritime Safety Authority | | 0 | | 0 |
| 47 | A | 33 | National Museum and Art Gallery | 2020 | 1 | | 0 |
| 48 | A | 34 | National Research Institute | | 0 | 2018 - 2020 | 3 |
| 49 | A | 35 | National Roads Authority | | 0 | | 0 |
| 50 | A | 36 | National Training Council | | 0 | | 0 |
| 51 | A | 37 | National Volunteer Service | | 0 | | 0 |
| 52 | A | 38 | National Youth Development Authority | | 0 | | 0 |
| 53 | A | 39 | Office of the Insurance Commissioner | | 0 | | 0 |
| 54 | A | 40 | Oil Palm Industry Corporation | 2013 | 1 | | 0 |
| 55 | A | 41 | Ombudsman Commission of Papua New Guinea | | 0 | 2019 & 2020 | 2 |
| 56 | A | 42 | Papua New Guinea Accident Investigation Commission | | 0 | | 0 |
| 57 | A | 43 | Papua New Guinea Customs Service | 2017 & 2018 | 2 | | 0 |
| 58 | A | 44 | Papua New Guinea Forest Authority | 2015 | 1 | | 0 |
| 59 | A | 45 | Papua New Guinea Immigration and Citizenship Service Authority | | 0 | | 0 |
| 60 | A | 46 | Papua New Guinea Institute of Medical Research | 2020 | 1 | | 0 |
| 61 | A | 47 | Pacific Institute of Leadership and Governance | | 0 | 2018 - 2020 | 3 |
| 62 | A | 48 | Papua New Guinea Maritime College | 2020 | 1 | | 0 |
| 63 | A | 49 | Papua New Guinea National Institute of Standards and Industrial Technology | 2017 - 2019 | 3 | | 0 |
| 64 | A | 50 | Papua New Guinea Sports Foundation | | 0 | | 0 |
| 65 | A | 51 | Papua New Guinea University of Technology | 2018 | 1 | | 0 |
| 66 | A | 51A | National Analytical and Testing Services Limited | 2013 - 2017 | 5 | | 0 |
| 67 | A | 51B | Unitech Development and Consultancy Company Limited | | 0 | | 0 |
| 68 | A | 52 | Parliamentary Members' Retirement Benefits Fund | | 0 | 2017 - 2020 | 4 |
| 69 | | 53 | PNG Road Fund | | 0 | | 0 |
| 70 | A | 54 | Public Curator of Papua New Guinea | | 0 | 2014 | 1 |
| 71 | A | 55 | Road Traffic Authority | 2019 & 2020 | 2 | | 0 |
| 72 | | 56 | Securities Commission of Papua New Guinea | 2019 & 2020 | 2 | | 0 |
| 73 | A | 57 | Security Industries Authority | | 0 | 2017 - 2020 | 4 |
| 74 | A | 58 | Small and Medium Enterprises Corporation | | 0 | 2018 & 2019 | 2 |
| 75 | A | 59 | Tourism Promotion Authority | | 0 | 2020 | 1 |
| 76 | A | 60 | University of Goroka | | 0 | | 0 |
| 77 | A | 60A | Unigor Consultancy Limited | | 0 | | 0 |
| 78 | A | 60B | Unigor Humi Catering Limited | 2011 - 2015 | 5 | | 0 |
| 79 | A | 61 | University of Natural Resources and Environment | | 0 | 2015 | 1 |
| 80 | A | 62 | University of Papua New Guinea | 2015 | 1 | | 0 |
| 81 | A | 62A | Unisave Limited | | 0 | | 0 |
| 82 | A | 62B | Univentures Limited | | 0 | | 0 |
| 83 | A | 63 | Western Pacific University | | 0 | 2015 - 2018 | 4 |
| 84 | B | 65 | Air Niugini Limited | 2016 - 2020 | 5 | | 0 |
| 85 | B | 65A | Air Niugini Cargo Limited | | 0 | | 0 |
| 86 | B | 65B | Air Niugini Properties Limited | | 0 | | 0 |
| 87 | B | 65C | Business Travel Centre Limited | | 0 | | 0 |
| 88 | B | 65D | Link-PNG Limited | | 0 | 2016 | 1 |
| 89 | B | 66 | Kumul Agriculture Limited | 2019 | 1 | | 0 |
| 90 | B | 67 | Kumul Petroleum Holdings Limited | 2019 | 1 | 2020 | 1 |

| No. | Section | Para No. | Entity | Audits Completed and Reports Issued | Total Units | Audits Substantially Completed | Total Units |
|-----|---------|----------|---|-------------------------------------|-------------|--------------------------------|-------------|
| 91 | B | 67A | Eda Oil Limited | | 0 | 2019 | 1 |
| 92 | B | 67B | Kumul Exploration (Asia) Limited | | 0 | 2019 | 1 |
| 93 | B | 67C | Kumul Gas Foreland 239 B.V | | 0 | | 0 |
| 94 | B | 67D | Kumul Gas Foreland 261 B.V | | 0 | | 0 |
| 95 | B | 67E | Kumul Gas Foreland 268 B.V | | 0 | | 0 |
| 96 | B | 67F | Kumul Gas Foreland 269 B.V | | 0 | | 0 |
| 97 | B | 67G | Kumul Gas Niugini B.V | | 0 | | 0 |
| 98 | B | 67H | Kumul Lending Co Pte Limited | | 0 | 2019 | 1 |
| 99 | B | 67I | Kumul LNG Limited | 2019 | 1 | 2020 | 1 |
| 100 | B | 67J | Kumul Petroleum (Development) Limited | | 0 | 2017 & 2018 | 2 |
| 101 | B | 67K | Kumul Petroleum (Investments) Limited | 2019 | 1 | 2020 | 1 |
| 102 | B | 67L | Kumul Petroleum (Kroton) Limited | 2019 | 1 | 2020 | 1 |
| 103 | B | 67M | Kumul Petroleum (Pipeline) Limited | 2019 | 1 | 2020 | 1 |
| 104 | B | 67N | Kumul Petroleum (Tech and Advisory) Limited | 2019 | 1 | 2020 | 1 |
| 105 | B | 67O | Kumul Petroleum Marketing Pte Limited | | 0 | 2019 | 1 |
| 106 | B | 67P | Kumul Security Agent Limited | | 0 | 2019 | 1 |
| 107 | B | 67Q | NPCP Oil Company Pty Limited | | 0 | | 0 |
| 108 | B | 68 | Kumul Telikom Holdings Limited | | 0 | | 0 |
| 109 | B | 68A | Bemobile Limited | 2018 - 2020 | 3 | | 0 |
| 110 | B | 68A.1 | Bemobile (Solomon Islands) Limited | | 0 | | 0 |
| 111 | B | 69 | Livestock Development Corporation Limited | | 0 | 2010 - 2018 | 9 |
| 112 | B | 70 | Mineral Resources Development Company Limited | | 0 | | 0 |
| 113 | B | 71 | Motor Vehicles Insurance Limited | 2020 | 1 | | 0 |
| 114 | B | 71A | Pacific MMI Insurance Limited | | 0 | | 0 |
| 115 | B | 71B | Pacific Re Limited | | 0 | | 0 |
| 116 | B | 72 | National Airports Corporation Limited | | 0 | 2020 | 1 |
| 117 | B | 72A | Airport City Development Limited | | 0 | 2019 | 1 |
| 118 | B | 72B | Airports Investments Limited | | 0 | 2019 | 1 |
| 119 | B | 73 | NCD Water and Sewerage Limited (Eda Ranu) | 2019 | 1 | | 0 |
| 120 | B | 74 | Papua New Guinea Ports Corporation Limited | 2020 | 1 | | 0 |
| 121 | B | 75 | PNG Air Services Limited | | 0 | | 0 |
| 122 | B | 76 | PNG DataCo Limited | 2020 | 1 | | 0 |
| 123 | B | 77 | PNG Power Limited | 2018 | 1 | 2019 | 1 |
| 124 | B | 78 | Post (PNG) Limited | 2020 | 1 | | 0 |
| 125 | B | 79 | Telikom (PNG) Limited | 2019 & 2020 | 2 | | 0 |
| 126 | B | 79A | DATEC (PNG) Limited | 2020 | 1 | | 0 |
| 127 | B | 79B | Kalang Advertising Limited | 2020 | 1 | | 0 |
| 128 | B | 79C | Media Niugini Limited (EMTV) | 2018 & 2019 | 2 | | 0 |
| 129 | B | 79D | PNG Directories Limited | | 0 | | 0 |
| 130 | B | 80 | Water PNG Limited | 2019 & 2020 | 2 | | 0 |

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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 **63** of this part of my Report.

2. BANK OF PAPUA NEW GUINEA

2.1 INTRODUCTION

2.1.1 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*. Further amendments to the Principal Act were made under the *Central Banking (Amendment) Act 2021* and certified on 22 December 2021.

2.1.2 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, and promoting employment and economic growth, especially of the non-mineral and non-petroleum Sector;
- formulate financial regulation and prudential standards to ensure stability and development of the financial system in PNG;
- promote an efficient national and international payments system; and
- provide efficient and responsive banking services to the Government.

2.1.3 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.

2.1.4 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.

2.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

2.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Bank's financial statements for the years ended 31 December 2020 and 2021 were issued on 27 October 2021 and 21 June 2022 respectively. The 2020 report did not contain any qualification while 2021 report contained a Qualified Opinion. For the purpose of this Report, only the 2021 report is reproduced.

“QUALIFIED OPINION

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

- (a) the financial statements of Bank of Papua New Guinea for the year ended 31 December 2021:
 - (i) give a true and fair view of the financial position and of its financial performance and cash flows for the year then ended; and
 - (ii) comply with the *International Financial Reporting Standards, Central Banking Act 2000 (as amended)* and other generally accepted accounting practice in Papua New Guinea; and
- (b) proper accounting records have been kept by the Bank as far as it appears from my examination of those records; and
- (c) I have obtained all the information and explanation that were required.

BASIS FOR QUALIFIED OPINION

Inscribed Stock

As disclosed in *Note 10* to the Financial Statements, the Bank has Inscribed Stock amounting to K2.226 billion at 31 December 2021 and K1.478 billion at 31 December 2020. The Bank has an accounting policy of carrying the Inscribed Stock at fair value through profit or loss. In my opinion, the Inscribed Stock meets the classification criteria of amortised 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 amortised cost, a carrying value of K2.042 billion would have been recorded at 31 December 2021 and K1.396 billion at 31 December 2020, after recognising expected credit losses. Total equity would have been reduced by K140.9 million at 31 December 2021 and K113.9 million at 31 December 2020. 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 decreased by K55.3 million for the year ended 31 December 2021 and increased by K58.2 million for the year ended 31 December 2020, interest income would have increased by K7.7 million for the year ended 31 December 2021 and reduced by K29.4 million for the year ended 31 December 2020, and credit loss expense would have decreased by K4.1 million for the year ended 31 December 2021, and K2.3 million for the year ended 31 December 2020.”

2.2.2 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 Bank for the years ended 31 December 2020 and 2021 were issued on 27 October 2021 and 21 June 2022 respectively. The reports contained similar observations, hence, only the 2021 report is reproduced.

Currency in Circulation

As disclosed in *Note 18* to the Financial Statements, the Bank has a currency in circulation liability amounting to K2.654 billion at 31 December 2021 and K2.431 billion at 31 December 2020. The currency in circulation liability does not include an allowance for balances of bank notes and coins in circulation that have been destroyed outside the Bank and therefore no longer represent legal tender. I was unable to obtain sufficient and appropriate evidence to support the carrying value of currency in circulation at 31 December 2021. Accordingly, I was unable to determine what adjustments might be necessary to the statements of financial position at 31 December 2021 and 31 December 2020, and the statements of profit or loss and other comprehensive income, statements of cash flows and statements of changes in equity for the year ended 31 December 2021, and for the corresponding period.

I have recommended the Bank to review and consider methodologies or processes for estimating amounts of currency in circulation that may never be returned to the bank representing obligations that ceased to exist. In its response, I was advised that a working group has been formed to look into this issue and work has commenced.

Accounting for K1.2 Billion Transferred to Government

In August 2021, International Monetary Fund (IMF) increased PNG's Special Drawing Rights (SDR) allocation by 252 million intended for the purpose of COVID-19 pandemic relief assistance which brought the total allocation to SDR377.8 million.

The Government of Papua New Guinea (GoPNG) then requested the utilization of the additional SDR allocation to meet fiscal deficits through the Bank of Papua New Guinea (BPNG). After several discussions between the Department of Treasury (DoT), the BPNG and based on advise from the State Solicitor, the Bank credited the GoPNG's Waigani Public Account with K1,259,437,658.

However, I noted that the Bank did not put together a management position paper to discuss the technical accounting implications of the classification and measurement (initial and subsequent) of the Kina equivalent transferred to the Government Waigini Public Account. There is a risk of material misstatement in the classification and initial and subsequent measurement of the Government Receivable in the absence of a contractual documentation on the terms of the Government Receivable.

I recommend that the Bank puts together a management technical accounting position paper which details the classification, initial and subsequent measurement of the Government Receivable asset.

Capital Work-In-Progress (CWIP) Reclassification

During my review of Capital-Work-in Progress (CWIP), I noted that the following CWIP transactions/projects amounting to K60 million were completed but not transferred to the Fixed Assets Register (FAR) on a timely basis. Further, land portions were purchased in 2018 and 2019 respectively but was not transferred to the FAR. This may result in incorrect representation of CWIP balances and understatement of assets.

I recommended that completed assets are timely transferred from the Capital Work-in-Progress account to the corresponding asset classes to ensure that depreciation is calculated as well as assets are properly accounted for in the balance sheet.

The Bank's management took note of my recommendation and advised to work with the concerned stakeholders to implement necessary controls.

Information Technology General Controls (ITGC)

During my review of ITGCs, I noted few weaknesses that requires management attention and improvement. Those that were identified were discussed in detail with the Bank and briefly listed as follows:

- Information Security Requirements and Controls for Domestic Trading System for Local Investments;
- Password Security and Configuration Management;
- The Active Directory; and
- Interface Transport within REPS and KATS.

Due to the nature of the Bank and its various systems being dependent on Information Technology platforms, I recommended management to ensure a robust IT environment within the Bank.

3. BORDER DEVELOPMENT AUTHORITY

3.1 INTRODUCTION

3.1.1 Legislation

The Border Development Authority was established under the *Border Development Authority Act 2008*. This Act came into operation on 9 October 2008. However, this Act was repealed and abolished Border Development Authority by Parliament through *Border Development Authority (Repeal) Act 2019*.

3.1.2 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.

3.1.3 Functions of the Authority

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

- 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.

3.1.4 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 3A of this Report.

3.2 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, however, I was unable to evaluate the results and complete the report.

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 were unsuccessful.

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

Further, I noted that the Authority was abolished by Parliament in 2019. As a result, I was unable to establish whether proper procedures were followed to account and dispose or transfer assets in the custody of the Authority back to the State.

3A. PAPUA NEW GUINEA MARITIME TRANSPORT LIMITED **(Subsidiary of the Border Development Authority)**

3A.1 INTRODUCTION

3A.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*.

3A.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.

3A.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 to 2021 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.

4. CIVIL AVIATION SAFETY AUTHORITY OF PAPUA NEW GUINEA

4.1 INTRODUCTION

4.1.1 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)*.

4.1.2 Functions of the Authority

The principal functions of the Authority are to:

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

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 2021 had been substantially completed.

5. CLIMATE CHANGE AND DEVELOPMENT AUTHORITY (formerly Office of Climate Change and Development)

5.1 INTRODUCTION

5.1.1 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.

5.1.2 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*.

5.1.3 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.

5.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

5.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority’s financial statements for the years ended 31 December 2018 and 2019 were both issued on 17 January 2022. The reports contained similar Qualified Opinions, hence, only the 2019 report is reproduced.

“QUALIFIED OPINION

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

- (a) The accompanying financial statements of Climate Change and Development Authority for the year ended 31 December 2019:
 - (i) gives a true and fair view of the financial affairs 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 *International Public Sector Accounting Standard (IPSAS)* – cash basis of accounting, the *Public Finances (Management) Act, 1995 (as amended)* and other generally accepted accounting practices 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**Cash and Cash Equivalents – K4,237**

The Authority reported cash and cash equivalents balance of K4,237 as at 31 December 2019. My review of the Authority’s cash book records, the bank reconciliations and the acquittals for petty cash revealed that:

- The Authority stated its 2018 closing cash and cash equivalents balance of K3,533 as the opening cash book balance for the financial year 2019. I have qualified on this cash balance in my 2018 audit report due to the lack of supporting documentations to ensure its accuracy. Accordingly, I was unable to determine what adjustments might have been necessary on this opening balance or the magnitude of the impact this might have on the Authority’s cash position as at 31 December 2019; and
- The Authority’s petty cash balance as at 31 December 2019 was nil. I was not provided with the petty cash register and the petty cash policy to determine and ensure the accuracy of the petty cash balance reported.

Accordingly, I was unable to ensure the completeness and accuracy of the cash and cash equivalent balance of K4,237 as reported in the *Statement of Cash Receipts and Payments* and *Note 4* to the financial statements.

Operating Expenditures – K3,152,704

I noted during my review of the Authority's operating expenditures that payments totaled K990,537 could not be verified due to lack of supporting documentations. The payment vouchers requested were either missing or lacked proper supporting documentations including acquittals for travel and accommodation related expenses and the petty cash used. Due to the lack of proper supporting documentations, I was not able to gain reasonable assurance over the occurrence and authenticity of the above payments. Accordingly, I was unable to determine the occurrence, validity, completeness and accuracy of the total expenditures balance of K3,152,704 reported in the financial statements for the year ended 31 December 2019."

5.2.2 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 2018 and 2019 were issued on 17 January 2022. The reports contained similar observations, hence, only the 2019 report is reproduced.

Absence of proper Management Accounting System (MAS)

I noted that the Authority maintained its financial transaction records on excel spread sheets while dealing with millions of Kina in public funds. I alarmed management of the potential risks of errors, omissions and manipulation of financial transactions and data in using the excel spread sheet. Thus, I recommended the management to procure an appropriate Management Accounting System (MAS).

Management accepted my recommendation and informed that they have plans to procure an MYOB Accounting Package and have IFMS online.

Lack of passing Adjustment Journals and Posting to appropriate Ledger Accounts

I noted from the transaction register maintained on cash book and related ledger accounts in 2019 and the prior years that adjustments including write back of un-presented cheques have been done without passing proper journals, posting to relevant ledger accounts and keeping journal copies in file. As a result, double entry system of transaction posting was not completed, causing unnecessary adjustment differences during the preparation of the financial statements. Such emerging differences have been passed on the face of the statement of cash receipts and payments without proper investigation and rectification. I highlighted this issue in my management letter however, I was not comfortable with the management's responses and cautioned proper management attention going forward.

Bank Reconciliations: *Lacked Segregation of Duties*

I noted that bank reconciliations were not reviewed by an independent senior officer to ensure correctness of the reconciliation performed and confirm accuracy of the amounts stated in the reconciliation statements. Bank reconciliations were not dated as evidence for timely preparation and printed and kept in file for management and audit use. I highlighted the importance of segregation of duty in the bank reconciliation functions. I also advised that bank reconciliations must be prepared on a regular basis, preferably on a monthly basis. The reviewer of bank reconciliation must be a senior officer to the preparer and both the preparer and reviewer must sign and date on the bank reconciliations.

Management took note of the issue raised and informed that owing to staff shortage, the accountant alone had to perform the role of the reconciliation officer.

Petty Cash Management: *Non-existence of Petty Cash Policy*

The Authority's internal controls surrounding management and use of petty cash had been very weak. There was no petty cash policy in place to determine the use and acquittal of petty cash advances. A petty cash register was not maintained and relevant supporting documents were not provided to support validity of a total of K65,000 expended in petty cash.

Accordingly, I advised the management to draft a *Petty Cash Policy* and have in place. The management acknowledged the issue for improvement however, stated that they have petty cash policy captured in the draft Financial Manual.

Lacked updated and complete Operational and Financial Procedural Manual (OFPM)

I observed that the Authority's Operational and Financial Procedural Manual was outdated. Also, the contents of the manual were too general and not tailored to provide sufficient and clear guidance to the users. I advised the management to draft appropriate policies which should cover the following areas:

- Bank reconciliations functions – segregation of duties between a preparer and reviewer;
- Petty cash policy – maintenance of petty cash float, register and acquittals;
- Budget versus actual review functions;
- Procurement policy – consideration given to tender's committee and financial authority limit;
- Fixed asset policy – fixed asset register, depreciation rate, custodians, stock count etc.; and
- Business travel policy – acquittals on travel and accommodation costs, allowance rate etc.

Management agreed with my findings and replied that a draft manual of the same version but with few changes on financial management had been prepared. The management reiterated to incorporate policies on other areas including use of the Authority's mobile phones and motor vehicles going forward.

Non-establishment of the Climate Change Board

The Authority since its inception has been operating without a Board. As a result, the Authority departed from compliance with *Part II, Division 2* of the *Climate Change (Management) Act 2015*. Therefore, I advised the management to establish a Board to provide guidance over the functions of the Authority.

Management noted my finding and responded that amendment to the *Climate Change (Management) Act 2017* is aimed for August. Once this is finalized, it will set up a Board as required.

Non-implementation of Internal Audit Unit and recruitment of an Internal Auditor

I noted that an Internal Audit Unit (IAU) is included in the Authority's organizational structure. However, the Unit has not been established to review internal processes and systems and to provide necessary advise to the management for improvement. The Internal Auditor position has remained vacant to date.

I brought this issue to the attention of the management and stressed that lack of internal audit functions encourage system break-down and weak internal controls which leads to mismanagement and abuse of public resources. Hence, I recommended the management to utilize the IAU and appoint an internal auditor as soon as practicable.

The management noted my findings however, stated that Position No. OCCDEX06 - Internal Auditor is a permanent position within the current approved structure. But the position has remained vacant because a successful candidate at the time of recruitment in 2014 could not be released by the Department of Finance as he was a probationary officer with the DOF. From 2015, the recruitment for this position has been put on halt to comply with the DPM Circular #15/2015 ceasing all recruitment was still enforceable in 2019.

Non-remittance of SWT and Superannuation Contributions

I noted that casual staff and short-term contract officers were not paid through the Alesco Payroll System. My review of the personnel emoluments of these officers including wages, leave fares and other employee related entitlements paid outside of the Alesco Payroll System revealed the following:

- Salary and Wages Tax (SWT) deducted from the casual staff and short-term contract officers have not been remitted to Internal Revenue Commission (IRC) breaching *Section 299G* of the *Income Tax Act 1959 (as Amended)*; and
- Where these staff/officers have been employed for more than three (3) months, the Authority has not been making contribution to any superannuation fund. Accordingly, the Authority breached the requirements under the *Superannuation Act 2000* and *General Order 17*.

I brought these issues to the attention of the management and recommended for compliance with the requirements of the applicable laws.

Management responded, *“We take note of the recommendations. Short-term officers signed the contract agreement with CCDA which includes the necessary requirement on the wages and salary agreement. They were hired on the need basis.”*

Payments made with duplicated Cheque Numbers

My review of the payment records revealed five (5) instances of cheque duplications. In one instance, cheque #607 was recorded with varying amounts at three different places. The cash book recorded this cheque for K1,780, the bank statement showed the cheque presented for K3,000 while the bank reconciliation statement identified the same cheque bearing K2,000 as unrepresented.

I brought these anomalies to the attention of the management to ensure the genuineness of the cheque payments and the management responded, *“We take note of the views and findings. During the financial period in 2019, we were running out of cheque books and some of the payments were done through electronic payments which was approved by the Bank South Pacific (BSP) through the Relationship Manager to pay some of the operational costs and others. Also, More Printing Company which is an agent for BSP normally prints cheque books made an error in the cheque serial numbers which were duplicated which was realized during the monthly reconciliation. It has to be the same cheque number appearing twice or triple with different amount stated in the bank statements.”*

Expenditures: Lacked proper record keeping, non-compliances and other anomalies

My review of the Authority’s expenditures for the year ended 31 December 2019 noted the following discrepancies:

- Leave fare entitlements totaled K103,649 were paid direct to the employees and not to travel agents;
- Payments totaled K274,600 had their vouchers missing to ensure validity of the payments;
- A total payment of K457,217 had no proper documentations to support legitimacy of the payments;
- Payments totaled K38,715 were made without obtaining 3 quotes from reputable suppliers;
- Cashable cheques totaled K101,320 lacked proper supporting documentations to enable me verify the legitimacy of the payments;
- Business travel costs amounted to K192,017 were not properly acquitted by the travelling officers. In addition, a total of K53,685 paid direct to individual officers for overseas accommodation were not properly acquitted. The Authority had not maintained a Travel Advance Register in 2019 and the prior years; and
- The Authority was paying cash advances to travelling officers in addition to the required daily travel allowances. I was unable to establish the basis for the rates applied in the absence of DPM approved Circular or a documented policy of the Authority.

I drew management's attention on these issues and the management took note of my findings.

5.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had submitted its financial statements for the years ended 31 December 2020 and 2021 and arrangements were being made to commence the audit shortly.

6. COCOA BOARD OF PAPUA NEW GUINEA

6.1 INTRODUCTION

6.1.1 Legislation

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

6.1.2 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.

6.1.3 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 7 of this Report.

6.1.4 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 6A and 6B of this Report respectively.

6.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

6.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Board for the 15 months period ended 31 December 2018 was issued on 7 September 2021. 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, the accompanying financial statements are;

- a) based on proper accounts and records; and
- b) in agreement with those accounts and records, and show fairly the state of affairs of the Board for the 15 months period ended 31 December 2018 and the results of its financial operations and cash flows for the period then ended.

BASIS FOR QUALIFIED OPINION

FIXED ASSETS – K3,840,839

My review of the fixed assets revealed that, Fixed Assets Register (FAR) provided by the Board is incomplete and was not properly maintained and updated due to:

- Projects’ assets were not captured in the Fixed Assets Register nor a separate Register maintained (Cocoa Nursery, Quality & Freight & Subsidy); and
- Assets such as vehicles, tractors, motor bikes and laptops were not captured in the Fixed Assets Register.

As a result, I was unable to ascertain the accuracy, existence, valuation and completeness of the fixed assets balance disclosed as K3,840,839 at year end.”

6.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the 15 months period ended 31 December 2018 was issued on 7 September 2021. The report contained the following observations:

Fixed Assets Register (FAR)

My review of the fixed assets of the Board revealed that the Fixed Assets Register (FAR) was incomplete as it was not properly updated and had not fully captured all the assets owned by the Board. The assets details such as asset numbers, acquisition date, assets value and custodian of the assets had not been properly maintained in the Fixed Assets Register. Further, I noted that the Board had not conducted a stock-take on its fixed assets for a number of years. I recommended the Management of the Board to do a full stock-take to update the Fixed Assets Register. The Management of the Board responded to my observation as follows:

“The fixed assets update and maintenance exercise has now been initiated by Management to address this issue. A stock take exercise has commenced at head office to ensure all assets are tagged with identification numbers for verification and control.

This will be rolled out to the regional offices and sub-branches as the exercise progresses pending availability of funding.”

Income

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

- **Cocoa Fermentary Central Database**

I noted that the Board did not have a complete and centralised database of all the registered cocoa fermentaries in the country apart from the Registered Exporters, which were provided for my review. About ten percent (10%) of the total income disclosed during the year was generated from fermentary registrations and other related licenses. As a result, I was unable to ascertain the total number of registered fermentaries in the country, their status, location and other statistics and, whether all fermentaries were registered and fees collected accordingly in 2018. I recommended that a complete centralised database of all fermentaries and other related licenses are created and maintained by the Board.

The Management responded to my query as follows:

“A Regional Offices Information Management System Database has been developed and is in its final review stage. The database was workshopped in Kokopo in October 2018. A database user manual was also developed. The database was programmed by a Contractor based on management’s requirements. Cocoa Fermentary Central Data will be centralized in Kokopo.”

- **Goods and Service Tax (GST) Returns**

During my review, I observed that the Board had not submitted the accumulated total of K2,771,574 GST returns for the 15 months period under review as per the *GST Act, 2003 (S.63-66)* which stipulates that GST has to be remitted within 21 days for the preceding taxable and accounting periods. I recommended the Board to comply with the *GST Act, 2003* by remitting GST returns on time to avoid penalties.

The Board management responded as follows:

“Management agrees with the audit finding and recommendation. Due to the current financial constraints, Cocoa Board was not able to lodge returns with payments on a timely basis in 2018.”

- **Group Tax Remittance**

I noted that the Board did not remit the group tax (salary & wages) to IRC on a timely basis which had resulted in the accumulation of the balance of group tax of K2,747,263 as at 31 December 2018. Consequently, the Board had not complied with the requirement of *Section 299G* of the *Income Tax Act, 1959 (as amended)*. I recommended the Board to comply with the *Income Tax Act* and ensure that the group tax is remitted to IRC in the year salary and wages are earned and paid.

The Management responded as follows:

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

Debtors and Prepayments

Staff Advance – K1,830,298

During my review of the Debtors and Prepayments, I observed that this account balance relates to Cash Advances given to officers on duty travel and advances in-relation to events organised by the Board. However, I noted that there was a significant increase during the year by K331,952 (22%) compared to prior years. Furthermore, I noted unpaid or outstanding total balance of K106,782 for former employees of the Board still shown under staff advances. I recommended the Management of the Board to ensure proper control be put in place to manage the staff advances. Further, proper reconciliation has to be done regularly to the staff advances to accurately and fairly state the balance in the financial statements at year end.

The Management of the Board responded to my observation as follows:

“The Cocoa Board’s Board of Directors are aware of this. Efforts of unacquitted advances recovery through the payroll deductions have been initiated and on-going. Staff Advance Policy to be included in the revised finance manual, The Board of Directors resolved in the meeting in September 2020 for outstanding advances of officers who have left the Board to be written off (K106,782).”

Rental Bond – K58,394

The Board paid rental bonds when renting staff accommodation or offices around the country. However, during my review, I observed that these rental bonds were never recovered by the Board from the landlords after the staff vacated the properties and moved to new locations. As a result, I was unable to ascertain the accuracy of the rental bond balance disclosed in the financial statements during the year ended 31 December 2018. I recommended that this balance be recouped through debt recovery process or be written off upon Board of Directors endorsement and approval.

Management responded to my observation as follows:

“Management has taken note of audit issue and recommendation Despite many follow-ups to recoup this debt, Land Lords continue to make excuses not to refund bond. Management has discussed to make a last attempt by visiting these landlords to gather sufficient evidence to either write off or expense outstanding rental bonds.”

Personnel Files

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

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

“Management agrees with audit findings and has taken note of the audit recommendations and HR team has initiated the updating of personnel files (salary and history cards).”

Payments without three (3) written Quotations and Public Tender

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

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

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

Travel Advance Register

My review of travel and subsistence expenses amounting to K186,674 for the 15 months period ended 31 December 2018 revealed lack of travel acquittals by concerned staff of the Board. There was Travel Advances Register maintained by the Board in 2018 however, there were no proper acquittal forms, receipts and airline boarding passes maintained in the file.

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

This issue was also raised in my prior year report. I brought this matter to the attention of the Board again and they responded as follows:

“Management is ensuring that the Travel Register is regularly updated and Travel Acquittal file will be in place before the next audit.”

Public Investment Projects (PIP) Grants

During my review of the Project grants (PIP) and differed income (unspent grant), I noted that K3.5 million was appropriated for two (2) projects; Cocoa Nursery and Cocoa Freight Subsidy of K3.2 million and K300,000 respectively. However, these funds were not transferred to the respective Project accounts but retained in the main operating account of the Board. Out of this, fifteen percent (15%) of the total project grant of K3.5 million, an amount of K525,000 was deducted by the Board as Project management fees and the balance were transferred at certain intervals in small amounts to the respective Project accounts. As a result, I was unable to place reliance on the controls surrounding the management of these Project accounts by the Board. Consequently, I was unable to ascertain the accuracy of the Project accounts disclosed for the year under review. I recommended the Board not to retain Project funds in the Main Account but to transfer immediately to the respective Project accounts. I also recommended that all Project accounts should maintain separate MYOB accounts to correctly recognise and classify funds movements and deferred income accordingly.

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

“Cocoa Board PNG noted that funds were not transferred on a timely basis, however, the main Account has also been assisting the Projects when project funds were depleted. It is the aim of Cocoa Board to ensure smooth implementation of projects activities outcomes and outputs even when project funds are limited. Management will ensure record keeping for this use of project funds and assistance provided to project activities are properly recorded for audit purposes.”

6.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Board had submitted its financial statements for the years ended 31 December 2019 and 2020 for my inspection and audit and arrangements were being made to commence these audits shortly.

The financial statements for the year ended 31 December 2021 had not been submitted for my inspection and audit.

6A. COCOA POD BORER PROJECT FUND

6A.1 INTRODUCTION

6A.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.

6A.1.2 Objectives of the Project Fund

The Principal objectives of the Project Fund are to:

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

6A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

6A.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 Project Fund for the year ended 31 December 2018 was issued on 7 September 2021. 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) in agreement with those accounts and records, and show fairly the state of affairs of the Fund for the period ended 31 December 2018 and the results of its financial operations and cash flows for the period then ended.

BASIS FOR QUALIFIED OPINION

Limitation of Scope – Debtors, Creditors and Differed Income

During my examination, I was not provided with schedules and supporting documents to confirm the Debtors balance of K97,232, Trade Creditors and accruals balance of K70,242 and Differed Income balance of K394,212. As a result, I was unable to verify the balances disclosed in the financial statements as at 31 December 2018.”

6A.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 Project Fund for the year ended 31 December 2018 was issued on 7 September 2021. The report contained the following observations:

Preparation of Bank Reconciliations

My review of bank reconciliations of the Project revealed that the bank reconciliations were not prepared, reviewed and verified by concerned officers of the Project on a timely basis in 2018. As a result, I was not able to place any reliance on the effectiveness of the internal controls surrounding the management of cash and the bank reconciliation process.

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

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

Fixed Assets Register (FAR)

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

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

Going Concern

The Cocoa Pod Borer Project Fund accounts and records had been prepared on a Going Concern basis during the period ended 31 December 2018. However, during my review it was revealed that the fund account remained dormant during the year. In response the Management explained that the Fund would be closed in the future upon Board approval.

6A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Project Fund had not submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 for my inspection and audit.

6B. COCOA STABILISATION FUND

(Subsidiary of Cocoa Board of PNG)

6B.1 INTRODUCTION

6B.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.

6B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

6B.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 Stabilisation Fund for the 15 months period ended 31 December 2018 was issued on 7 September 2021. The report did not contain any qualification.

6B.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 Stabilisation Fund for the 15 months period ended 31 December 2018 was issued on 7 September 2021. The report contained the following observations:

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

The Board had not submitted the Fund's financial statements for the 15 months period ended 31 December 2018 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the *Public Finances (Management) Act, 1995 (as amended)*. Consequently, the Fund had breached *Sections 63(2) and 63(4)* of the *Public Finances (Management) Act, 1995 (as amended)*.

The Management responded to my observation as follows:

“Cocoa Board has taken steps to ensure that in future the financial statements are prepared and submitted on a timely basis to comply with Sections 63(2) and 63(4) of the Public Finances (Management) Act, 1995 (as amended).”

Going Concern

The Cocoa Stabilization Fund accounts and records had been prepared on a Going Concern basis during the 15 months period ended 31 December 2018. However, my examination revealed that the Fund's account remained dormant over the years. In response, the Management stated that the Board had decided to close this account in the future based on the NEC decision.

6B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Stabilisation Fund had not submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 for my inspection and audit.

7. COCOA COCONUT INSTITUTE LIMITED OF PAPUA NEW GUINEA

7.1 INTRODUCTION

7.1.1 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.

7.1.2 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.

7.2 STATUS OF FINANCIAL STATEMENTS

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

The management had advised that the Company had been liquidated and deregistered in 2018 with research and extension functions reverted to Kokonas Industri Koporesen and Cocoa Board of PNG respectively. That being the case, 2018 will be my last year of audit.

8. COFFEE INDUSTRY CORPORATION LIMITED

8.1 INTRODUCTION

8.1.1 Legislation

The Coffee Industry Corporation Limited (CICL) 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.

8.1.2 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.

8.1.3 Fund and Subsidiaries of the Corporation

The Corporation has a Fund and two subsidiary companies namely, *Coffee Industry Fund*, *Kofi Management Services Limited* and *Patana No.61 Limited*. Comments in relation to the Fund and the subsidiaries are contained in paragraphs 8A, 8B and 8C of this Report respectively.

8.2 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 had been completed and results were being evaluated and awaiting signed financial statements to issue the report.

The Company had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

8A. COFFEE INDUSTRY FUND **(A subsidiary of Coffee Industry Corporation Limited)**

8A.1 INTRODUCTION

8A.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.

8A.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 Fund for the year ended 31 December 2019 had been completed and results were being evaluated and awaiting signed financial statements to issue the audit report.

The Fund had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

8B. KOFI MANAGEMENT SERVICES LIMITED (A subsidiary of Coffee Industry Corporation Limited)

8B.1 INTRODUCTION

8B.1.1 Legislation

Kofi Management Services Limited was incorporated under the *Companies Act* on 21 February 2014 by the Executive Management of Coffee Industry Corporation Limited (CICL). The Company is a 100% owned subsidiary of Coffee Industry Corporation Limited which commenced its full business operations in 2017.

8B.1.2 Objectives of the Company

The Company's prime objectives are to:

- manage and grow property portfolios in terms of property investment, development and improvement of current commercial properties in PNG;
- manage research developed coffee blocks into commercial plantation thus exporting coffee to international markets; and
- generate income with marginalised profit to support the recurrent budget of CICL.

8B.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 had been completed and results were being evaluated and awaiting signed financial statements.

The Company had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

8C. PATANA NO. 61 LIMITED **(A subsidiary of Coffee Industry Corporation Limited)**

8C.1 INTRODUCTION

8C.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.

8C.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 year ended 31 December 2019 had been completed and results were being evaluated and awaiting signed financial statements.

The Company had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

9. CONSERVATION AND ENVIRONMENT PROTECTION AUTHORITY

9.1 INTRODUCTION

9.1.1 Legislation

The *Conservation and Environment Protection Authority Act 2014* was 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.

9.1.2 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.

9.2 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 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 Authority for the year ended 31 December 2019 was in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

10. GOVERNMENT PRINTING OFFICE

10.1 INTRODUCTION

10.1.1 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)*.

10.1.2 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.

10.2 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 2018, 2019 and 2020 were substantially completed.

The Office had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

11. INDEPENDENCE FELLOWSHIP TRUST

11.1 INTRODUCTION

11.1.1 Legislation

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

11.1.2 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.

11.1.3 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.

11.2 AUDIT OBSERVATIONS

11.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Trust for the year ended 31 December 2020 was issued on 25 February 2022. The report did not contain any qualification.

11.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Trust had submitted its financial statements for the year ended 31 December 2021 and arrangements were being made to commence the audit shortly.

12. INDEPENDENT CONSUMER AND COMPETITION COMMISSION

12.1 INTRODUCTION

12.1.1 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.

12.1.2 Functions of the Commission

The main functions of the Commission are to:

- perform such functions relating to price regulation, licensing, industry regulation and other matters as are conferred on the Commission by or under this Act or any other Act, including, without limitation, in relation to issuing, administering and enforcing regulator contracts under Part 3;
- promote and protect the *bona fide* interests of consumers in relation to the acquisition and supply of goods and services;
- make available information in relation to matters affecting the interests of consumers, including information with respect to the rights and obligations of persons under Papua New Guinea laws that are designed to protect the interest of consumers;
- investigate complaints concerning matters affecting or likely to affect the *bona fide* interests of consumers in relation to the acquisition of goods and services and to enforce compliance with laws relating to such matters;
- investigate complaints concerning market conduct and to enforce compliance with laws relating to market conduct in Papua New Guinea;
- make, monitor the operation of, and review from time to time, codes and rules relating to the conduct or operation of regulated entities;
- advise and make recommendations to the Minister in relation to any matter referred to the Commission by the Minister;
- advise and make recommendations to the Minister with respect to any matter connected with this Act or with respect to any matter connected to any other Act which confers functions on the Commission; and
- such other functions as may be conferred on the Commission by any other Act.

12.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had submitted its financial statements for the year ended 31 December 2020 and arrangements were being made to commence the audit shortly.

The Commission had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

13. INDUSTRIAL CENTRES DEVELOPMENT CORPORATION

13.1 INTRODUCTION

13.1.1 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.

13.1.2 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.

13.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Corporation had not submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 for my inspection and audit. However, I noted that the Corporation was abolished by Parliament in 2019 and *Special Economic Zones Authority Act 2019* was approved and certified on 18 February 2020, thereby repealing the *Industrial Centres Development Corporation Act 1990*.

However, the Management of the Corporation advised that they had initiated legal proceeding to seek proper interpretation of the *Special Economic Zones Authority Act* and awaiting legal outcome.

14. INTERNAL REVENUE COMMISSION

14.1 INTRODUCTION

14.1.1 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.

14.1.2 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.

14.1.3 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.

14.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

14.2.1 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 and 2017 were issued on 10 February 2022 and 22 June 2022 respectively. These reports contained a similar Disclaimer of Opinions, hence, only the 2017 report is reproduced as follows:

“DISCLAIMER OF OPINION

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

BASIS FOR DISCLAIMER OF OPINION

Administered Transactions

Disclosed in the Statement of Administered Accounts and the corresponding *Note 11* are Tax Collections, Transfers/Distributions, the year-end bank balances and outstanding tax debt over the years up to 31 December 2017. My review of the related accounts and records of the administered transactions revealed the following:

- The Commission adopts the IPSAS cash basis of accounting in the preparation of their financial statements. This method recognizes only cash transactions and as such the year-end cash at bank balances administered by IRC should equate to the sum total of the net tax collections after transfers/distributions and the beginning cash balances. However, during my review of the Statement of Administered Accounts, I observed an unreconciled difference of K940,737,000 between the Administered Account year-end cash balance of K1,192,419,000 and the administered year-end cash at bank amount of K251,682,000;
- The cash at bank balances for the statement of administered accounts as well as the cash balances disclosed in *Note 11* for the thirty-four (34) bank accounts that administer various tax related functions were derived from the bank statements apart from the cash books/Cash at Bank General Ledgers. I observed that this was due to unreliable/no bank reconciliations and cash books maintained by the Commission; and

- The Commission was unable to provide sufficient supporting documentations in relation to K4,133,215,000 disclosed as Tax in Arrears in 2017 for my review. Accordingly, I was unable to comment on the accuracy, completeness and existence of the balance of tax in arrears as disclosed in *note 11.7* of the financial statements.

Due to these discrepancies and the magnitude of transactions administered by the Commission, I was not able to satisfy myself on the completeness, accuracy and correctness of the balances of administered tax collections, transfers/distributions, tax in arrears and the year-end administered cash balances disclosed in the financial statements.”

14.2.2 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 and 2017 were issued on 10 February 2022 and 22 June 2022 respectively. The reports contained similar observations, hence, only the 2017 comments have been reproduced:

Fixed Assets

My review of the Fixed Assets and related records of the Commission revealed that the Fixed Assets Register (FAR) was not properly maintained and noted instances where assets in the Register did not have purchase dates and assets serial numbers as well as designated custodians. Further, the Information Technology (IT) Division maintained a separate record of Information and Communication Technology (ICT) equipment purchased by the Commission, and has not consolidated in the main FAR by the Property and Facilities Division thus understating the FAR aggregate balance. I also observed that no stock take was carried out on the Commission’s fixed assets during the year under review to confirm the existence and accuracy and fairly state the values of Assets owned and controlled by the Commission.

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

I brought these issues to the attention of the management and provided the necessary recommendations to rectify accordingly. Management responded that the IFMS Fixed Asset module was implemented and asset records were translated to this module including IT records. Two additional people were recruited to the Fixed Asset section. Further there is now regular stock take exercise carried out which was implemented in 2018.

Development Projects

In 2017, the Commission incurred a total of K15,576,392 in relation to Development Projects. My examination into the related accounts and records revealed that Revenue Accounting Systems (RAS) II and Revenue Raising Initiative (RRI) were both budgeted at K5 million each. However, actual expenditure incurred was K7,021,710 for RASII and K6,012,926 for RRI, resulting in excess expenditure of K3,034,636. Moreover, consultancy payments have a threshold or a limit set on how much can be paid out in a year as stated in the contract. I observed instances where two consultants were paid in excess of their contract limits.

Due to the above, I was not able to conclude on whether there was proper monitoring and co-ordination over the expenditures incurred on Project against budget policies and the contract limits.

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

“Contract management has improved as a result of these findings. To remedy this lapse in contract management the following were implemented:

- *RASII- It was agreed with CSTB and the Department of Finance (DoF) that this needs to be retendered. The level of involvement by the RAS II project team was wound back to within budget limits; and*
- *RRI- Confusions was identified in the understanding of the budget and contract limits. The contract is net of tax and the contract limit should have been the annual amount. For these contracts it was agreed by CSTB and DoF to approve a variation to the contract limit (through CSTB) and the Authority to Pre-commit (through DoF).”*

Staff Personnel File Maintenance

My examination of the personnel emoluments for officers of the Commission revealed that the Personnel Files were not properly maintained. Important documents such as the employment contracts, termination/resignation notices and final entitlement calculation sheets for certain offices that left the Commission in 2017 could not be located in their respective personnel files.

Consequently, I was not able to confirm the basis of salaries and other allowances paid and at the same time verify whether the final entitlements of those who exited in 2017 were properly calculated. The absence of such vital documents limit the scope of my audit.

I recommended that appropriate actions to properly maintain its employees' personnel files be taken by the management of the Commission. Important documents should be filed in their personnel files and be readily available for management and audit purposes.

Management responded as follows:

“Management acknowledges this audit concern and has commenced an improvement in its record keeping under a new director. Since 2017 IRC has recruited a Records Management Officer so that the records can be filled in a timely and complete manner. Eventually IRC will need a Human Resource management system to help manage this data but for now Finance Instruction 03/2017 seems to prohibit this.”

Insufficient Supporting Documents - Overtime

I was not provided with supporting documents such as overtime worksheets and/or schedules to confirm overtime payments totaling K286,593 despite numerous reminders. Without the required information, I was not able to confirm and verify whether approval to work overtime was granted and that overtime calculations were accurately calculated before payments were made.

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

“Human Resources will pay only on claims raised and approved by the relevant Assistant Commissioner or occasionally the Commissioner. There is to be evidence and documentation with approval for HR to pay otherwise HR does not have the authority to approve overtime claims for other divisions. To address the issue of appropriate record maintenance HR has recruited a Records Management officer to assist with timely and proper maintenance of records. The 2017 records were not well maintained resulting in the inability to verify those old transactions. This has been addressed moving forward.”

Rental of Property-Lease/Tenancy Agreements

My review revealed that payments amounting to K546,519 were for rental of office space for regional offices including consultants' accommodations. Of this balance, I could not ascertain the validity of rentals totaling K358,925.75 as the tenancy agreements provided by the Commission were either outdated or not signed and stamped.

In the absence of valid contractual documents binding the Commission and the respective landlords, I was unable to gain comfort over the validity and correctness of rental payments made during the year.

I recommended that complete and valid Tenancy Agreements for office and properties rented are properly executed and maintained by the management.

The Management advised that the procurement section was collating, reviewing and updating all IRC lease agreement. One of the many things that the procurement section implemented when established in 2019 was the review and establishment of proper leases.

Administered Accounts-Tax Reconciliation System (TRS) Report

During my audit, I noted that a Tax Reconciliation System (TRS) Report had been compiled to establish a reconciled balance between the IRC's records and the banks. The IRC cashbook was compiled based on receipts from the tax receipting systems SIGTAS & RAS and transfers from the Transfer Registers maintained using excel spread sheets, as well as adjustments and reversals. The following issues were noted:

- The TRS is a cumulative database which did not have periodic cut-offs for periodic reporting purposes. As such reports as at 31 December 2017 could not be generated. The figures on the TRS report as at 31 December 2017 are cumulative balances from 1 January 2016 to 31 December 2017;
- The cashbook opening balance of K983,389,869, entries of receipts from SIGTAS and RAS amounting to K14,153,164,885 and K245,774,281 respectively as well as transfers totaling K13,351,955,823 disclosed in the reconciliation report could not be verified as the supporting schedules or listings were not available; and
- Reconciling items in the TRS made up of Bank credits of K1,648,452,936 not recorded into SIGTAS/RAS, Bank debits of K359,283,300 not recorded into IRC Transfer Registers, Receipts totaling K1,411,024,655 and K14,836,963 from SIGTAS and RAS respectively not yet cleared in the Bank including transfers of K154,374,889 not yet processed in the Bank could not be reliably substantiated due to lack of supporting schedules.

Due to the above, I was not able to gain reasonable assurance and reliably ascertain the completeness and accuracy of the amounts on the reconciliation.

I sought clarification from the management and they responded as follows:

“Management acknowledges the significant problems and issues with the current Tax Reconciliation System and processes. This was debated and discussed during 2017 & 2018 with a special project being implemented in 2018 to change the systems and approach to accounting for tax revenues. The TRS is a manually intensive reconciliation process of records from various disparate and incomplete sources that tries to balance the transactional banking data to tax payer payment information in SIGTAS. A receipt is recognized only when reconciled to SIGTAS. This is contrary to the Cash Basis of accounting that “recognizes transactions and other events only when cash is received or paid”. Many other issues include the level of manual intervention required, consequential manual errors, tax payer not having a real time view of their tax status, IRC not having the same, etc. This process required significant reengineering. This process began in 2019. The ultimate solution that was envisioned was to be able to capture the tax transactional data accurately and timely at source. This mean creating a payment portal that could accurately capture banking transactional data at source and at the time of the transaction. This will remove the need to reconcile and provide timely and accurate data for cash records and for tax records in SIGTAS. This system was finally announced on 1st October 2021.”

Direct Taxes Incorrect Transfer - Bookmakers Turnover Tax

During my review of the direct tax revenue transfers that were made in 2017, I noted an instance where the Commission erroneously transferred a total of K578,331 in relation to Bookmakers Turnover Tax to Waigani Public Account via Transfer Advice # 134/2017(CK#77) breaching *Section 48* of the *Inter-Government Relations (Functions and Funding) Act, 2009*.

I reminded the Commission that the transfer of Bookmakers Turnover Tax to Waigani Public Account is a breach of *Inter-Government Relations (Functions and Funding) Act, 2009 Section 48* which states that “*All revenue collected from the imposition of turnover tax shall, immediately following receipt, be paid into the Provincial Bookmaking Trust Account*” and further recommended the management to ensure that there are proper checks done on the tax types collected prior to making transfers to the respective recipients as required by law.

Management responded as follows:

“Tax Revenue section was reorganized in 2018 & 2019 with new procedures being implemented thereafter to improve tax revenue management.”

14.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had submitted its financial statements for the years ended 31 December 2018 and 2019 for my inspection and audit and arrangements were being made to commence these audits shortly.

The Commission had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

15. INVESTMENT PROMOTION AUTHORITY

15.1 INTRODUCTION

15.1.1 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*.

15.1.2 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.

15.2 AUDIT OBSERVATIONS

15.2.1 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 2020 was issued on 14 February 2022. The report did not contain any qualification.

15.3 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 2021 for my inspection and audit.

16. KOKONAS INDASTRI KOPORESEN (Formerly Copra Marketing Board of PNG)

16.1 INTRODUCTION

16.1.1 Legislation

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

16.1.2 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.

16.1.3 Funds of the Koporesen

The *Kokonas Industri Koporesen Act, 2002* subsequently established PNG Coconut Extension Fund and PNG Coconut Research Fund. Comments in relation to these Funds are contained in paragraphs 16A and 16B respectively of this Report.

16.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

16.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Koporesen for the year ended 31 December 2020 was issued on 8 June 2022. 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 Koporesen for the year ended 31 December 2020 was issued on 8 June 2022. The report contained the following observations:

Long Outstanding Trade Debtors – K740,058

My review of the Koporesen's trade debtors account revealed that a number of debtors totaling K740,058 which represents 66% of the total accounts receivable remained outstanding for over 90 days. I further noted that some of those long outstanding debts have been there dating back from 2010 to 2016. This indicates a very weak and ineffective control mechanism in place for debt collection.

I recommended management to investigate those long outstanding debts and make provisions for debts that were doubtful and write-off those deemed uncollectible and consider bad debts in accordance with the Koporesen's debt management collection policy.

Management agreed to take corrective action and make provisions in the subsequent year.

Fixed Assets Management

Section 62 of the Public Finances (Management) Act 1995 (as amended) requires all public bodies to ensure that adequate control is maintained over its assets, or assets in its custody. However, my review of the Fixed Assets Register revealed the following discrepancies:

- No proper stock take was carried out to update the Assets Register and fairly state the assets value for the year under review; and
- Lack of the physical control over assets, especially, office machines, furniture & fittings and equipment. These assets had no asset labels/number for identification and verification purposes.

The lack of labelling assets with identification tags/codes for referencing would result in assets not being reliably verified for existence and keeping track of assets. Hence, I could not reliably ascertain the existence of assets listed in the Fixed Assets Register.

Management responded that a new Asset Maintenance and Management System has been installed and interfaced with MYOB to address these issues in 2022.

Payroll Review

My review of the payroll revealed the following:

- Staff who were benefiting from institutional houses, for tax purpose, a prescribed rate of K160 as per the Tax Table effective 1 January 2019 should be used, however, a rate of K60 has been applied;
- Staff who were provided with motor vehicles, for tax purpose, a prescribed rate of K125/K95 as per the Tax Table effective 1 January 2019 should be used, however, this rate has not been applied when calculating their taxes;
- The personnel files for the employees were not updated. The valid documents for dependents declared were not maintained in their files. The Salary and Wages Declaration Forms were dated back to 2007 and 2008. Most of the dependents declared then may be adults by now; and
- Further review of the salaries and wages for the contract officers revealed that their pay slips only show the base salary. I noted that all other assessable allowances including SDMA/DMA were sacrificed to cater for their accommodation rentals. In addition, the accommodation rentals and motor vehicle allowances were paid monthly.

All tax assessable income/allowances were not included in calculating their tax. As a result, the Koporesen is in breach of the *Income Tax Act, 1959 (as amended)*.

I recommended the Koporesen to:

- Use the prescribed tax rate of K160 for staff who were benefiting from the Institutional houses and K125 for those who were benefiting from motor vehicles with fuel on 24 hours use;
- All benefits including allowances were assessable for tax purposes and should be calculated and paid through the normal fortnightly salary for all staff;
- Personnel files should be updated and documents like birth certificates should be filed and the Salary and Wages Tax declarations be updated; and
- Strictly adhere to the *Income Tax Act* and abstain from practices seen to be engineered to evade tax.

Management responded to take corrective actions through a new Able Payroll System which was installed and commissioned in 2022.

Leave Fares - K665,940

My review of the leave travel expenses revealed the following:

- Most of the dependents claimed for leave fares did not have their birth certificates attached to proof their eligibility. I also noted that they did not have salary & wages declaration forms attached or missing in their personnel files;
- The Koperesen had been paying land and sea transport fares at K5,000 per person who were taking their recreational leaves;
- Lumpsum salaries paid to officers taking their recreational leaves were misclassified as Leave Entitlements when they should have been classified as Salary Expenses;
- A sum of **K73,040** payment vouchers were missing, I could not verify whether or not these payments were made to the service providers; and
- General Order 14.47 states, “*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 (10%) of his/her gross substantive fortnightly salary at the date immediately prior to proceeding on recreation leave.*” However, my review revealed that this ten percent (10%) has not be paid to the Koporesen.

Management had concurred with my findings and agreed to take corrective actions.

Cash Cheque Payments - K1,201,941

My review of the expenses revealed that the Koporesen disbursed a total of K1,201,941 under Pay Cash arrangements with the Bank. Single transactions even amounting from K5,000 to K22,000 paid out as Pay Cash had been noted. I raised this issue in my prior years audits and management then responded to take necessary actions to rectify this issue but not much progress was noted.

This payment procedure did not leave a proper audit trail. Further, I noted that the Koporesen did not maintain an Advance Register. As such, this payment procedure leaves room for irregularities to occur.

I recommended that all cheques disbursed by the Koporesen must be drawn to the service provider only and in terms of travel allowance, cheque must be drawn and paid to the staff bank accounts. For operational purposes, when cash was given for contingency purposes, it must be acquitted in accordance with provisions in the *Public Finances (Management) Act 1995 (as amended)*.

Management responded as follows:

“We noted your comments on encashment of cheques. However, the cash payments are made for genuine business transactions which are fully supported by supporting documents. You will note that there has been a decrease in cash payments from K1.6 million in 2019 to K1.2 million in 2020. Management will endeavour to ensure cash payments are minimised in future.”

Travel Acquittal Register – K65,220

Audit was not provided with a Travel Advance and Acquittals Register to trace and authenticate advances and travel expenses against acquittals.

Improper and incomplete travel register is non-compliance to the *Public Finances (Management) Act 1995 (as amended)* and the *Financial Management Manual and Instructions* where in Part 20 paragraph 14.1 instructs that a Travel Register be maintained to keep record of all travels authorized. Also, the paragraph 11.2 requires travels and subsistence to be acquitted within 14 days of return from overseas travels whilst paragraph 12.10 instructs that travel and subsistence from domestic travels be acquitted within 7 days from the day of return.

Disbursements without Proper Supporting Documentation

My review of the operational expenditures revealed that there had been payments worth K77,152 made without supporting documents such as; the three (3) required written quotation, acquittals and official letters/ memos.

I recommended management to ensure that proper procurement processes were performed in accordance with the *Public Finances (Management) Act 1995 (as amended)*. All necessary financial records must be kept with all their supporting documents attached to ascertain legitimacy of the business transaction.

Management agreed to take corrective actions.

16.3 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 2021 for my inspection and audit.

16A. PAPUA NEW GUINEA COCONUT EXTENSION FUND

16A.1 INTRODUCTION

16A.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.

16A.1.2 Objective of the Fund

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

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

16A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Fund had submitted its financial statements for the years ended 31 December 2019 and 2020 and arrangements were being made to commence the audits shortly.

The Fund had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

16B. PAPUA NEW GUINEA COCONUT RESEARCH FUND

16B.1 INTRODUCTION

16B.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.

16B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Fund had submitted its financial statements for the years ended 31 December 2019 and 2020 and arrangements were being made to commence the audits shortly.

The Fund had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

17. KUMUL CONSOLIDATED HOLDINGS (Formerly Independent Public Business Corporation)

17.1 INTRODUCTION

17.1.1 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.

17.1.2 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.

17.1.3 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.

17.1.4 Trust of the Corporation

The Trust of the Corporation is the *General Business Trust*. Comments in relation to the Trust are contained in paragraph 17A of this Report.

17.1.5 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 17B and 17C of this Report respectively.

17.2 AUDIT OBSERVATIONS

17.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Corporation for the year ended 31 December 2020 was issued on 20 August 2021. The report did not contain any qualification.

17.3 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 2021 was in progress.

17A. GENERAL BUSINESS TRUST **(Trust under Kumul Consolidated Holdings)**

17A.1 INTRODUCTION

17A.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.

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.

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 Trust's financial statements for the year ended 31 December 2020 was issued on 20 August 2021. 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 General Business Trust for the year ended 31 December 2020:
 - (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

Ownership and Valuation of Lancron Naval Base Property

As disclosed in *Note 10* to the financial report, the Trust's investment property included Lancron Naval Base with a carrying value of K46,628,175 at 31 December 2019 and K79,500,000 at 31 December 2020. The Trust has an accounting policy of carrying this investment at fair value through profit and loss account. My review revealed that the Trust had used the 2013 valuation of the Lancron Naval Base to determine the carrying value as at 31 December 2019. Therefore, this carrying value at 31 December 2019 formed as the opening balance for the 2020 financial year. The Lancron Naval Base was independently valued at K79,500,000 as at 31 December 2020, however, the fair value at 31 December 2019 had not been assessed by an Independent valuer.

As a result, I was unable to satisfy myself by alternative means as to the accuracy of the opening balance of Lancron Naval Base. Since the opening balance enter into the determination of the statement of comprehensive income and equity movements of the Trust for the year ended 31 December 2020, any adjustments that may exist on the opening balance would have a consequential effect on the financial performance and equity movements for the year ended 31 December 2020. Accordingly, I was unable to determine whether any adjustments might have been necessary in the financial reports of the Trust for the year ended 31 December 2020.”

17A.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 2021 was in progress.

17B. KUMUL TECHNOLOGY DEVELOPMENT CORPORATION LIMITED (A subsidiary of Kumul Consolidated Holdings)

17B.1 INTRODUCTION

17B.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.

17B.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.

17B.2 AUDIT OBSERVATIONS

17B.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 2020 was issued on 2 September 2021. The report did not contain any qualification.

17B.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 2021 was in progress.

17C. PNG DAMS LIMITED **(Subsidiary of Kumul Consolidated Holdings)**

17C.1 INTRODUCTION

17C.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.

17C.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.

17C.2 AUDIT OBSERVATIONS

17C.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 2020 was issued on 2 September 2021. The report did not contain any qualification.

17C.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 2021 was in progress.

18. LEGAL TRAINING INSTITUTE

18.1 INTRODUCTION

18.1.1 Legislation

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

18.1.2 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*.

18.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

18.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the year ended 31 December 2020 was issued on 25 February 2022. 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 2020 and the results of its operations for the year then ended.

BASIS FOR QUALIFIED OPINION

Fixed Assets – K11,976,961

My review of the fixed assets revealed that the Institute had not maintained a complete and proper Fixed Assets Register (FAR) for the year under review. The assets owned by the Institute have not been tagged for easy identification and recording purposes. Further details such as purchase/acquisition dates and purchase values were not specified. 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 by way of notes in the financial statements.

Limitation of Scope – Salary and Wages – K2,553,214

During my review of salary and wages account, I noted that the salary and wages files or alesco payroll reports from 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 balance of K2,553,214 as reported in the financial statements.”

18.2.2 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 2020 was issued on 25 February 2022. The report contained the following observations:

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 standard 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

Section 6(3) of the *Post Graduate Legal Training Act, 1972* requires the Council to keep minutes of meetings held. During my review, I noted that there were two (2) Council meetings held in 2020. However, these Council meeting minutes were not signed by the Chairman and the Director which means that any resolutions or decisions passed in the meetings deemed unofficial and invalid.

Leave Fares

During my review and examination of recreational leave fares, I noted a total of K52,904 were paid to employees as leave fares. However, I was not able to confirm and verify these payments as there were no dependent birth certificates, marriage certificates and other legal documents to confirm the legitimacy of the dependents. As a result, I was unable to substantiate the existence and validity of the dependents to the leave fares claimed by the Institute’s employees.

18.3 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 2021 for my inspection and audit.

19. MINERAL RESOURCES AUTHORITY

19.1 INTRODUCTION

19.1.1 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.

19.1.2 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.

19.1.3 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.

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 Authority's financial statements for the year ended 31 December 2019 was issued on 30 September 2021 while 2020 was issued on 14 April 2022. The reports contained similar Qualified Opinions, hence, only the 2020 report is reproduced.

“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 Mineral Resources Authority for the year ended 31 December 2020:
 - (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

Opening Balances (Production Levies – Non Alluvial, Tenement Rentals and Trade Receivables)

A Qualified Opinion was issued for the year ended 31 December 2019 in relation to the inability to obtain sufficient appropriate audit evidence over Production Levies – Non Alluvial and Tenement Rentals which form part of income from Rendering of Services reported in the statement of Profit or Loss and Comprehensive Income and the corresponding trade receivables recognised in the Statement of Financial Position. As a result, the Production Levies – Non-Alluvial of K56,559,094 and Tenement Rentals of K3,477,587 recognised as income with corresponding trade receivables in the prior year 31 December 2019 may have been misstated.

Since the opening balances enter into the determination of the current year financial performance and position, I am unable to determine whether adjustments might have been necessary in relation to revenue and trade receivables in the statement of comprehensive income and statement of financial position as at the year ended 31 December 2020.

Production Levies (Alluvial and Non Alluvial) income and the Corresponding Accounts Receivables

Production levies (alluvial and non-alluvial) reported in the financial statements of K64,950,869 makes up 92% (2019: 92%) of the Authority's total income in 2020.

In accordance with the *Mineral Resources Authority Act 2018*, the Authority imposes and collects production levies from mineral producing mines, being 0.5% of assessable income (for PNG tax purposes) derived from the minerals produced during the year from the project or the alluvial gold that is to be exported. Mineral producing mines declare and file production levy returns from which the Authority recognizes revenue.

I noted that during the 2020 financial year, the Authority did not have sufficient and appropriate controls to verify the completeness and accuracy of the production returns or the alluvial gold export reports. The Authority only relies on the data provided by the mines and exporters. As a result, the production levies recognised during the year may be misstated depending on whether the mines and exporters have declared a higher or lower production or export than actual. Consequently, the amounts recorded as income for the year ended 31 December 2020 and corresponding trade receivables may be materially misstated.

Further, there were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance over the completeness and accuracy of the production levies and related trade receivables of K64,950,869 and K65,502,094 disclosed in the financial statements respectively.

Tenement Rentals Income and Corresponding Trade Receivables

Mining license holders are required to pay annual tenement rentals to Mineral Resources Authority. The rates of tenement rentals are fixed for each type of mining license and size of mining area. The total amount of tenement rentals to be charged to each license holder is therefore dependent on the type of mining license granted and the size of the area under these licenses.

Tenement rentals income disclosed in *Note 4* to the financial statements of K3,070,028 makes up 4% (2019: 5%) of the Authority's annual total income. I note from my audit that during the 2020 financial year the Authority did not have a complete and accurate list of active tenement lease or mining licenses. As a result, I was unable to gather sufficient appropriate audit evidence to determine whether the tenement rentals recognised as at the year ended 31 December 2020 of K3,070,028 and the associated Current Deferred Income of K987,274 and Security Deposit – Tenements of K4,259,676 are free from material misstatement.

Employee Benefits and Corresponding Employee Costs

Disclosed in *Note 17* to the financial statements as at 31 December 2020, was the annual leave provisions balance of K3,432,268 (2019: K2,434,923) and long service leave provisions balance of K4,841,359 (2019: K4,328,211). In relation to these employee benefits, the Authority has been unable to provide the underlying support for inputs used in the calculation of these benefits. In the absence of this information, I was not able to obtain sufficient and appropriate audit evidence regarding the completeness, existence, and accuracy of the recognised employee benefits as at 31 December 2020. Consequently, I was not able to determine what adjustments might be necessary to the statements of financial position and the statements of profit or loss and other comprehensive income, and statements of changes in equity for the year ended 31 December 2020."

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 the records of the Authority for the year ended 31 December 2019 was issued on 30 September 2021 while 2020 was issued on 14 April 2022. These reports contained similar significant observations, hence, only 2020 report was reproduced.

Corporate Governance

My review on Corporate Governance and practices revealed instances that required the attention of the management and Board for improvement or implementation. These areas were board meetings, committees of MRA, vacancies and internal audit. Important registers relating to risk management, directors interest/independence and legal were not maintain in 2020. I also, noted no whistle blower policy and code of conduct.

These issues were highlighted and brought to the Authority's attention with recommendations.

Quality and Maintenance of Financial Information

During the course of my audit I have identified multiple instances of control deficiencies relating to quality and maintenance of financial information. Fourteen (14) misstatements were identified. Twelve (12) of these were corrected by management and have been incorporated into the audited financial statements as at the year ended 31 December 2020 and the remaining two (2) have not been corrected due to their immateriality.

In addition, there were significant delays experienced during the audit as information requested to support the balances shown in the financial statements could not be easily retrieved by the Authority and/or was non-existent at the time of audit. This was not in line with the requirement set out in *Section 34 and 35 of the Mineral Resources Authority Act, 2018*.

Further, I also noted that the accounting policies and procedures manual had not been updated in recent years.

I have detailed and recommended the management for improvement and /or implementation to address issues of concern.

Reconciliation and Recoverability of the GST Receivable Balances

During my audit of GST receivables, I noted a difference in the 31 December 2020 balance of GST receivable as per the trial balance and the Internal Revenue Commission (IRC) statement of K257,000 (2019: K480,000). Moreover, I noted that the Authority had a K5.5 million balance of GST receivable from the IRC as at 31 December 2020. There had been little to no refunds of this in recent years.

I recommended management to perform a reconciliation of its GST balance per the trial balance to the IRC statements. Where there are differences, Management must actively work with the IRC to resolve these going forward.

Property, Plant and Equipment

I noted that there was no proof of review and approval of the Fixed Asset Register that was separate from the preparer. As such, the following matters were not identified and resolved on a timely basis:

- The accumulated depreciation balance in the Fixed Assets Register had not been adjusted to reflect the disposal of vehicles in done in 2017 and 2018; and
- Asset No. FA-0198 (Geology and Mining Software) purchased in September 2020 of K242,267 had not been appropriately recorded in the Fixed Assets Register whereby only part of the invoice that had been paid was recorded as the asset value and not the full amount per the invoice.

I recommended that the review and the reconciliation between the Fixed Assets Register and the trial balance form part of the regular month-end procedures and ensure controls are improved.

Access to Payroll Master File

I noted that the Payroll Officer had access to change details in the Employee Master File. This none restriction of the employee master file had increased the risk for manipulation of the payments made to employees given that the payroll officers that process payroll payments also had access to changed data used to calculate the inputs to these pay runs.

I recommended that proper Human Resource policies, processes and controls be implemented to ensure there was segregation of duties and access restriction between employees who process the pay runs and those who have access to information in the Employee Master.

Property Titles

State leases for Allotments 1, 3 & 4 Section 196 Boroko, NCD valued at K3.2 million as at 31 December 2020 were registered under Glory Holdings Limited. I learned from management that the property is owned by the Authority however, the transfer of ownership had not yet been registered under the Authority. However, the Authority incurs and pays for the cost of insurance and maintenance etc.

Similarly, I was not provided with copies of the ownership certificate for the European Union funded SSM Training Centre - Wau and office and accommodation.

I recommended that this issue be resolved with the department of lands and recommended that management formalize and maintain to record the ownership of these properties in consultation with the department of lands.

19.3 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 2021 was in progress.

20. NATIONAL AGRICULTURE QUARANTINE AND INSPECTION AUTHORITY

20.1 INTRODUCTION

20.1.1 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.

20.1.2 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.

20.1.3 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.

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 2018 was completed and results were being evaluated.

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

The Authority had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

21. NATIONAL AGRICULTURAL RESEARCH INSTITUTE

21.1 INTRODUCTION

21.1.1 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.

21.1.2 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.

21.1.3 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.

21.2 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 2021 had been completed and results were being evaluated.

22. NATIONAL AIDS COUNCIL SECRETARIAT

22.1 INTRODUCTION

22.1.1 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.

22.1.2 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.

22.1.3 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.

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 Secretariat for the year ended 31 December 2020 was issued on 31 January 2022. 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 Secretariat for the year ended 31 December 2020 was issued on 31 January 2022. The report contained the following significant matters:

Internal Control Environment - Policies and Procedures

Documented Policies and procedures are a key element in ensuring an effective internal control environment as they outline the key authorization and processing requirements for key functions in any organization. I noted at the time of audit that, except for the HR Manual which had been approved and used in 2020, Motor Vehicle, Laptop Computer and Mobile phone policies were in draft awaiting endorsement from the Council. In addition, the accounting and procurements procedural manuals were yet to be created.

I brought this to the attention of the management and recommended the Secretariat to ensure to have a deadline set to have the draft policies approved and endorsed by the Council. Accounting and Procurement manuals should also be created, approved and communicated to all levels of the management for implementation and adherence.

The management in its response stated that NACS conducts its business affairs and manages public properties in compliance to the Public Finance Management Act, General Orders and other relevant laws; hence, high possibility of malpractice and abuse within NACS is minimized. However, going forward, NACS will ensure to formulate its Financial Procedural Manual based on PFMA and have the draft policies approved by the Council.

Internal Audit Unit

As reported in my prior years' audit reports, the Secretariat still did not fully utilize the Internal Audit function to review various processes including assessment and implementation of effective internal controls to provide necessary recommendations for the management. The Internal Auditor position still remained vacant over a number of years now.

Again, I drew management's attention to the above and recommended that an internal auditor be appointed as soon as practicable to regularly review and report on the effectiveness of risk management, control and governance processes.

Management concurred with my recommendation and advised that recruitment is on hold due to the expiry of the former Director's employment contract term.

Fixed Assets

My review of the Fixed Assets and related records of the Secretariat revealed the following:

- The Fixed Assets Register was not properly maintained as I 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 my audit to locate and verify the existence of the assets. Consequently, I was not able to gain comfort over the existence, completeness and accuracy of the fixed assets balance of K3,751,487 disclosed in *Note 9* to the financial statements;
- No stock take was carried out over the years including 2020 to accurately and fairly state the values of assets owned and controlled by Secretariat. Due to the above, I noted that assets dating back over a decade still remained in the FAR although they have reached their useful lives and were due for disposal. Further physical inspection conducted on certain assets of the Secretariat revealed instances where assets were missing/lost through theft but still had their details and costs taken up in the Fixed Assets Register;
- Physical inspection conducted on vehicles owned by the Secretariat revealed that the vehicles were not registered with "Z" plates, breaching *Chapter 243 section 19A(e)(i)* of the *Motor Traffic Regulation 1967* which requires that State vehicles are to be registered with a "Z" plate; and
- I noted an instance where a senior officer of the Secretariat was provided vehicle for twenty-four (24) hours use with fuel and was also paid vehicle allowances. The Secretariat has misapplied this allowance resulting in double dipping. Pursuant to the *General Order 9*, contract officers are to benefit either from the Vehicle Allowance or a Motor Vehicle provided by the Secretariat, not both.

Similar audit findings and recommendations were brought to management's attention over the years however; it appears that management has not given appropriate attention to my audit findings and is yet to implement the recommendations.

Long Over Due Staff Advances

The Secretariat disclosed its staff advance balance as K33,622 in *Note 7* of the financial statements at 31 December 2020. However, I noted that this balance had not been recovered and was outstanding for a while now; hence, the collectability of this amount was doubtful considering its lengthy ageing period. I brought this recurring issue to the attention of the management and recommended the Secretariat to come up with options to collect those debts; otherwise consider writing the balance off after the Council's approval.

Management in its response advised that submission for the write off for the long outstanding staff advances was made to the Council and were still awaiting approval.

Director's Leave Entitlement Payments (Leave Fares)

According to clause 4.1(a) of the Director's *terms and conditions of employment*, the Director shall accrue Recreational Leave at a rate of 30(working) days for each completed 12 months of continuous service from commencement of service. In addition, clause 6.3(b) allows for payment of leave fare entitlement after 2 years of continuous service, whilst clause 4.1(d) stipulates that the Director's accrued recreational leave is subject to approval by the Chairman. During my review of leave fares and related records the following observations were noted:

- As per an Inter-Office Memo dated 25 November 2020 the Director took an advance leave from 11/03/19 to 15/03/19 (one week) with full leave fares after the first leave taken on the 31/01/18 to 13/03/18 (6 weeks). Recreational Leave was requested again on 25/11/2020 for 8 days leave starting from 20/12/2020 to 09/01/2021 with full leave fares paid via cheque # 973 totaling K17,083.73, although he was not yet eligible for another leave fare entitlement as stipulated in clause 6.3(b) of his contract of employment;
- In addition to the above, the Director approved his own leave application instead of Council Chairman's approval as required under clause 4.1(d) of his terms and conditions of employment; and
- A payment of K11,366.70 bearing the cheque number 510 made on 31 January 2020 to Travel Planners (invoice number TPT 35027) for payment of Leave fares for Director and his family did not have the approved leave application form attached to the payment voucher, a primary source document to confirm whether he was eligible for leave fare entitlements as specified in his terms and conditions of employment.

Due to the above shortcomings, I was unable to ascertain the basis of leave fare entitlement payments of K17,084 and K11,367 respectively. In addition, contract terms and conditions had not been adhered to.

The management concurred with my findings and responded as follows:

"We admit that NACS has made a mistake in paying the leave fares that you have noted due to verbal direction and pressure from the former Director. However, in the future, NACS will ensure to properly analyze the employment contract documents and leave records before processing leave fare entitlements."

Travel & Subsistence

During my examination of travel related expenditures of the Secretariat, I noted that internal controls and monitoring over this activity was weak and allowed room for manipulation. Accordingly, the following issues were noted:

- The Travel Acquittal Register provided for my verification was incomplete as it did not capture and register all the travels undertaken during the year including their relevant acquittals;

- I noted instances where payments totaling K35,339 for hire car services on duty travels charged extra days compared to the flight itinerary details/dates stated in the requisition memos attached with the payment vouchers;
- A total of K54,401 were paid out as cash advances in addition to the normal Travel Allowances received by officers on duty travel. However, receipts and invoices including acquittal forms were not attached to the payment vouchers to determine or confirm if the funds have been utilized for work related expenditures; and
- A total of K280,979 worth of payment vouchers that were inspected did not have proper supporting documentations like proper inter office memos and itineraries for my audit to confirm the number of days travelled to enable me to recalculate allowances/number of days for vehicle hire/hotel lodgments and subsequently gain comfort on the accuracy of the amounts paid. Further, I noted instances where there was insufficient documentation to support the purpose and validity of trips in line with NACS approved operational work plans. Instances where extensions were granted for trips were also not justified.

Although, travel is necessary for the Secretariat to discharge its duties, it also provides significant opportunities or incentives for abuse and misappropriation to occur. I was therefore unable to ascertain the reasonableness, validity and accuracy of the above payments nor conclude on whether funds were used for the intended purposes.

Management acknowledged my findings and agreed to take corrective measures.

General Expenditures

I observed the following during my review of the Secretariat's general expenditures including its related records:

- A total of K539,275 worth of payments had no proper supporting documentations such as Minutes/Memos justifying the basis of payments including Invoices/Receipts to confirm the validity of the payments. Further we noted instances where there were no delivery dockets/consignments attached to the payment vouchers to confirm if the actual goods purchased had been delivered to the Secretariat;
- Instances of non-compliance with the Procurement Procedures were noted where payments totaling K198,527 were made on the basis of one written quote rather than three quotes for expenditures exceeding K5000 which contravenes *Finance Instructions 2/2013*. Further in the absence of three (3) written quotations, there was no documented justification for choosing that particular supplier of goods/ services as required by the *Financial Management Manual, Part 12, Div. 3 Para 9*; and

- A total of K170,575 was paid to a Fly Hire Cars Services and a total of K53,116 paid to Island Mobile Hire Cars Ltd for hiring of vehicles on duty travels. It appears that these two hire car companies were the most frequent hire car companies utilized by the Secretariat. However, I did not sight any service agreement nor explanation as to why hiring of vehicles on duty travels were to be done by the above hire car companies only. *Part 11, Division 1* of the *Financial Management Manual* highlights the five fundamental Principles in the GoPNG Procurement Process. In light of the issue noted, I was not able to comment on whether the principles of ‘Effective Competition’ and ‘Fair and Ethical Dealing’ were practiced in the above procurements.

I reminded the management that lack of proper documentation and the non-adherence to standard procedures and processes is an indicative of an ineffective internal control system and further recommended that proper procurement procedures in line with GoPNG Procurements should be enforced and a regular review of this business cycle should be undertaken. Non-compliance must be monitored and appropriate action be taken accordingly by management.

Management concurred with my observations and recommendations and advised as follows:

- *“In 2020, several payments were based on quotes/proforma invoices and goods and services were delivered to NACS. However, NACS did not obtain invoices and receipts/delivery dockets from suppliers. In future NACS will ensure to have these documents from suppliers;*
- *In some instances, there was only one supplier of goods and services acquired by NACS. Hence, three quotes were not obtained; and*
- *The two mentioned hire car companies allowed NACS to use their vehicles and claim payments later while most hire car companies wanted up front payments before releasing their vehicles. As a result, these two hire car companies were used frequently.”*

22.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Secretariat had submitted its financial statements for the year ended 31 December 2021 and arrangements were being made to commence the audit shortly.

23. NATIONAL BROADCASTING CORPORATION

23.1 INTRODUCTION

23.1.1 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*.

23.1.2 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.

23.2 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 2017 was completed and the results were being evaluated.

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

The Corporation had not submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 for my inspection and audit.

24. NATIONAL CAPITAL DISTRICT COMMISSION

24.1 INTRODUCTION

24.1.1 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.

24.1.2 Function 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.

24.1.3 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 24A and 24B of this Report.

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 Commission's financial statements for the year ended 31 December 2019 was issued on 25 February 2022. 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 National Capital District Commission 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 *International Financial Reporting Standards* 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 explanation required.

BASIS FOR QUALIFIED OPINION

Opening Balance

My report on the financial statements of the Commission for the year ended 31 December 2018 was a qualified opinion in respect to the non-valuation of land & buildings over the years, land & garbage rate debtors' inaccuracies and fixed assets balances. There were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance as to the correctness of the opening balances. Since the opening balances enter into the determination of the financial performance, I was unable to determine whether adjustments might have been necessary in respect to the loss reported for the year.

Revaluation of Land and Buildings – K150,491,901

My review revealed that the Commission had not carried out any revaluation exercises on its land and buildings over a number of years since the last revaluation performed in 1992. Consequently, the Commission had not complied with *IAS 16 paragraph 34 (Measurement and Recognition)* which requires valuation of property, plant and buildings to be 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 2019 were fairly stated.

Land and Garbage Rate Debtors – K97,701,550

I noted during my examination that the data recorded in 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 rate also applies 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 K97,701,550 (net of provision) as reported in the financial statements as at 31 December 2019.

Fixed Assets – K117,425,730

Fixed assets balance of K186,771,185 (at cost) was disclosed as at 31 December 2019 by the Commission. This balance saw an increase of about K32.6 million (21%) from 2018. I noted during my review of a stock-take and physical verification on all assets by the Commission however, these reports were not provided for my verification. As a result, I was not able to place any reliance on the effectiveness of the internal controls surrounding the management of fixed assets. Consequently, I am unable to comment on the condition, existence and ownership of the assets and accuracy of the amount disclosed by the Commission in the financial statements as at 31 December 2019.

Bank Overdraft – K40,070,331

The Bank Overdraft year-end balance was disclosed as K40,070,331 in *Note 9* to the financial statements. However, sufficient and appropriate audit evidence were not made available for my audit procedures. As such, I was unable to determine the accuracy and completeness of the bank overdraft balance and the impacts this would have on the cash at balance at the year end.

EMPHASIS OF MATTER**Group Tax Payable**

I noted during my review that outstanding salaries and wages tax have accumulated to K19,637,234 at the year end. Cheques raised for the Tax Office relating to the salaries and wages tax by the Commission have not been remitted as required.

Nambawan Super – Employees' Super Fund Contributions

In a similar fashion, cheques raised for Nambawan Super Limited have never been issued. As a result, K4,116,050 representing the Commission's Employee contribution to the super fund has accumulated over the period up to 31 December 2019."

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 Commission for the year ended 31 December 2019 was issued on 25 February 2022. The report contained the following significant matters:

Disaster Recovery Plan-Data Storage

I noted that the general controls on information technology (IT) emphasized in my prior years' audits (2008-2018) have not been addressed by the management. The Commission advised 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, was 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 management and they responded as follows:

“This is a prior year issue re-addressed in 2015, 2016, 2017, 2018 and now in 2019. Management formed a new committee in 2017 to address this issue. We understand the limiting of loss of data and vital managerial and IT information are therefore backed up on disks and external hard drives and are stored and locked up in separate property outside NCDC office as well as offsite system back-up. Other than this, the committee has resolved to adapt the disaster plan as recommended by allocating budget yearly 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. Your audit comment is noted and as this is an on-going issue, it has been noted for a special attention of the city manager to address at his level if it hasn't been fully addressed.”

NCDC Investments

Note 14 to the financial statements disclosed the Commission's total investments of K19.69 million as at 31 December 2019. I noted that the Commission invested in several companies and held certain percentages of shares ranging from 6% - 100%. Details are as follows:

| Company | Ownership (%) | Amount (K) | Country of Incorporation |
|--|---------------|-------------------|--------------------------|
| Siale Holdings Ltd | 7 | 5,000 | PNG |
| Bougainville Copper Ltd | 0 | 2,880 | PNG |
| Lottery Management Services Ltd | 6 | 3,000 | PNG |
| POM City Enterprises Development Ltd | 100 | 675,000 | PNG |
| National Capital Botanical Enterprises Ltd | 100 | 100 | PNG |
| NCDC Holdings Ltd | 100 | 2 | PNG |
| National Gas Corporation | 54 | 100,000 | PNG |
| Rangeview Heights Ltd | 15 | 18,900,000 | PNG |
| Total | | 19,685,982 | |

The companies with the 100% shareholding are wholly owned by NCDC hence, needs audit of their accounts and consolidation with the parent entity (NCDC) as required under *IFRS 10 – Consolidated Financial Statements*. However, this practice has not been happening and performed over the years as I was advised by the Commission that most entities have ceased to operate. Board approval is yet to be sought to deregister the entities from the Investment Promotion Authority (IPA) and also remove them from the financial statements.

I recommended that management has to seek Board approval for IPA deregistration and removal of these entities in the financial statements as the investments total might not be fairly stated and might also be misleading to the end users of the financial statements.

Budget Variance – Payroll Expenditure

I have noted that although management had adhered to the approved budgetary level and limit, payroll expenditure alone was not within the budgetary allocation for the period under review. A comparison between budget forecast for payroll expenditure and the actual payroll expenses revealed that the actual payroll expenses exceeded the amount budgeted for payroll by K21,015,038. Out of the total budget variance, approximately 81% originated from salaries and wages.

I also noted that the same issue was deliberated in the Commissioners' meeting dated 9 September 2019 in which the Commissioners' stated that the management has to cut down on unnecessary recruitment. I further recommended to management to control salaries and wages expenses and/or recruitments to free up funds for municipal purposes as failure to control it can place additional strain on the Commission's budget.

Management responded as follows:

“As noted in the previous years’ management letters, 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 organizational structure approved by the board and SCMC that require appropriate funding. This was reported back to board which since had appointed an independent firm to restructure NCDC management vis-à-vis to the NCDC’s functions. When this restructure is completed, all unwanted staff in position of functions outsourced, will be trimmed down and eventually cut costs. The over expenditure was identified and resolved by the Management and the Board. Your comment is noted and it will be included in a special report of matters for attention of the City Manager to address at his level if it has not been addressed.”

Special Payments to Commissioners

My review of Commissioners allowances revealed that three (3) Commissioners were paid Christmas bonuses of K10,000 each, mobile phones, mobile credits and gifts from Fone Haus amounting to K19,136. However, I was not provided with the SRC Determination to confirm that.

I further noted that other expenses incurred by the Commissioners totaled up to K761,631 in 2019. This account had an annual budget allocation of K1 million and appears to be a discretionary fund set aside for the Commissioners. In my view, such payments are unlawful unless a law or policy provides a basis of such an allocation.

Management concurred with my finding and advised that this issue will be properly investigated, addressed at the Board level without delay and to ensure such does not occur in the years ahead.

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 Commission for the year ended 31 December 2020 was in progress.

The Commission had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

24A. NATIONAL CAPITAL DISTRICT BOTANICAL ENTERPRISES LIMITED (A subsidiary of National Capital District Commission)

24A.1 INTRODUCTION

24A.1.1 Legislation

The NCD Botanical Enterprises Limited was incorporated under the *Companies Act* on 17 January 2000. The Company is wholly owned by National Capital District Commission.

24A.1.2 Objective of the Company

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

24A.1.3 Functions of the Company

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

24A.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, 2019, 2020 and 2021 for my inspection and audit, despite numerous reminders.

24B. PORT MORESBY NATURE PARK LIMITED **(A subsidiary of National Capital District Commission)**

24B.1 INTRODUCTION

24B.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.

24B.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.

24B.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.

24B.2 AUDIT OBSERVATIONS

24B.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 5 October 2021. The report did not contain any qualification.

24B.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 2019 and 2020 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

25. NATIONAL CULTURAL COMMISSION

25.1 INTRODUCTION

25.1.1 Legislation

The National Cultural Commission was established under the *National Cultural Commission Act 1994*. This Act came into operation on 15 November 1994, thereby repealing the *National Cultural Committee (Interim Arrangements) Act 1993*.

Under the Act, all assets held by and obligations and liabilities imposed on the former National Cultural Committee immediately before the operationalisation of the Act on that date were transferred to the Commission.

25.1.2 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.

25.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

25.2.1 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 2020 was issued on 30 June 2022. 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 Commission are based on proper accounts and records; and

- (b) the financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Commission as at 31 December 2020 and the results of its operations for the year then ended.

BASIS FOR QUALIFIED OPINION

Internal Control Environment

During my review, I noted that the Commission's internal control environment had quite improved during the year under review, however, there were some areas that needed more improvements. I noted, especially at the three (3) Cultural Institutions – Institute of PNG Studies, National Performing Arts Troupe and the National Film Institute that there was lack of segregation of duties. Staff employed by the Cultural Institutions lacked necessary qualifications to undertake finance and accounting tasks allocated to them.

Furthermore, they were not familiar with the *Public Finances (Management) Act, 1995 (as amended)*, *General Orders* and other *Financial Management Manuals or Instructions* to strengthen the internal control system of the three (3) Cultural Institutions. 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 2020.

Cash at Bank – K50,302

During my review on the bank reconciliations, I was not provided with the bank confirmation certificates for National Film Institute, National Performing Arts Troupe and Institute of PNG Studies accounts for the year ended 31 December 2020. As a result, I was unable to verify and confirm the accuracy and completeness of the cash balance of the three (3) Institutions disclosed at the year end.

Cost Centre Accounting Information

During my review, I noted that the accounting information from the National Film Institute, National Performing Arts Troupe and Institute of PNG Studies were not provided by the Commission for my audit examination and inspection. I was unable to verify the expenditures (acquittals of payments), internal revenue collection reports, fixed assets and other documentary evidences during my review. 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.”

25.2.2 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 2020 was issued on 30 June 2022. The report contained the following observations:

Revenue Receipting and Segregation of duties

I noted that internal revenue for National Film Institute (NFI) totaling K111,480 was not receipted during the year under review. I also noted that NFI did not maintain a receipt book to record all income from International Film Companies. Further, there was no segregation of duties maintained in receipting and depositing of income.

Non Maintenance of Travel Advance/Acquittal Register

My review of the travel and subsistence expenses revealed that the Commission had not maintained a proper updated 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 totaling K227,155 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 I was advised that this recommendation is being implemented.

Fixed Assets – K16,769,221

My review of the fixed assets and capital expenditures of the Commission for the year ended 31 December 2020 revealed that the Commission had not conducted any physical stock take to confirm the existence of its assets. As a result, I was unable to determine the value, condition and existence of assets totaling K16,769,221 disclosed in the financial statements at year end.

I brought this issue to the attention of the Management and I was advised that this observation is being implemented.

Other Internal Control Weaknesses

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

- i. My review of various payments made by Institute of PNG Studies and National Film Institute indicated that some payments had no proper approval from Section 32 Officers which are the Directors of each Institution; and
- ii. Encashable cheques made to paymaster for various expenses had no proper acquittals attached to determine or confirm if the funds have been utilized for the intended purposes.

25.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Commission for the year ended 31 December 2021 had been submitted and arrangements were being made to commence the audit shortly.

26. NATIONAL ECONOMIC AND FISCAL COMMISSION

26.1 INTRODUCTION

26.1.1 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*.

26.1.2 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.

26.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had not submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 for my inspection and audit despite numerous reminders from my Office.

27. NATIONAL ENERGY AUTHORITY

27.1 INTRODUCTION

27.1.1 Legislation

The National Energy Authority was established under the *National Energy Authority Act 2021*. The Act was certified on 10 June 2021.

27.1.2 Functions of the Authority

The functions of the Authority are to:

- perform energy industry regulatory functions including recommending electricity and energy regulations, codes and guidelines;
- review the National Energy Policy 2017 - 2027 as and when required and formulate specific policies for various renewable and non-renewable energy sources;
- prepare implementation plans for the National Energy Policy 2017 - 2027 and specific plans for various renewable and non-renewable sources approved by the Government;
- develop programs for the implementation of specific policies and plans including the National Electrification Roll-Out Plan;
- recruit staff for technical and operational functions of the Authority;
- to develop and maintain a viable workforce of professional and technical personnel qualified and competent to discharge the functions and duties required of the Authority;
- prepare annual budgets and audits for the Board's approval;
- co-ordinate with provincial and local-level governments and district development authorities and other statutory authorities and private sector agencies to foster, manage and monitor energy resource development strategies and programs within the country;
- perform such other functions and duties as may be conferred on it by the *National Energy Authority Act* or any other law;
- establish and manage an Electricity Trust Fund for the National Electrification Roll-Out Plan;
- develop and implement community service obligations programs in collaboration with Government and Non-Government Organisations; and
- review Papua New Guinea's energy needs every five years.

27.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had not submitted its financial statements for the six months period ending 31 December 2021 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 *Food Sanitation 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 inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the years ended 31 December 2019 and 2020 were in progress.

The Authority had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

29. NATIONAL GAMING CONTROL BOARD AND ITS SUBSIDIARY

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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

29.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Board's financial statements for the year ended 31 December 2016 was issued on 25 February 2022. 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 below:

- (a) the financial statements of National Gaming Control Board 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 *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;
- (b) Proper accounting records have been kept by the Board, 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

Fixed Assets – K41.29 Million

National Gaming Control Board (NGCB) maintained a Poker Machine Register in the year which reflected 2215 machines, whilst the depreciation schedule showed the potential existence of 2468 machines. In addition, the number of Poker machines insured under Industrial Special Risk was 2077 while the Central Monitoring System (CMS) generated report indicated 2255 machines as “online”.

No explanation for the above noted discrepancies and/or variances was provided for my review. Further, I could not confirm if any assessment for impairment/obsolescence of poker machines had been done. Considering this and with poker machines representing seventy-eight percent (78%) of fixed assets value, I am unable to confirm the existence, accuracy and valuation of fixed assets and associated depreciation recorded in the financial statements.”

29.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Board for the years ended 31 December 2016 was issued on 25 February 2022. The report contained the following significant matters:

Fixed Assets

As highlighted in prior audits, I continue to note that the importation and supply of poker machines to NGCB during the year by an agent appears to be in breach of *Gaming Control Act 2007*, as only the Gaming machine operators have the license to import and supply poker machines under the current legislation.

I also observed that the purchase of poker machines appears to be from the same supplier. I was not able to confirm if proper quotes/tenders were called for to ensure value for money was obtained while procuring the poker machines.

I recommended that management should consider the option of sourcing the machines from global markets to ensure competitive prices are offered.

Conflict of Interest

As reported in the past, provisions of the *Gaming Control Act 2007* permits NGCB as one of the four (4) Gaming Machine Operators in the country. I am of the view that this is a potential conflict of interest as one of the major player in the industry is also the regulator. This has the potential for non-compliance with provisions of the *Gaming Control Act 2007* as well as perceived bias against other players in the industry.

Gaming Receivables

Accrued receivables consisted of unbanked collections from various sites that were subsequently banked. I noted that NGCB was not strictly enforcing *Sections 163(1) & (2)* and *Section 172(4)* of the *Gaming Control Act 2007* by monitoring the banking obligations of all relevant permits holders and disabling gaming sites who are in breach of these sections in accordance with the Act. In addition, I noted that there was no proper reconciliation of debtors from prior years in order to accurately provide for bad and doubtful debts.

I recommended that strict monitoring has to be put in place and any deviations should be penalized.

Surplus Income

As per *Section 25* of *Gaming Control Act 2007*, “In January and July each year, the Board shall review the cost of carrying out its functions against income received for the purpose in six months prior to the month of review, and after taking into account anticipated income and expenditure for the ensuing six months, into the Community Benefit Fund.” I did not sight evidence to confirm compliance with this provision of the Act.

Annual Reports

I noted that the Board did not comply with *Section 23(1)* of *Gaming Control Act 2007*, by not furnishing to the Minister a report on the progress and performance of the Board for the previous financial year then ended. Also, the Board did not adhere to *Section 23(4)* by not reporting to each Provincial Government every six (6) months on the gaming activities conducted in the provinces.

Similarly, the Board has not complied with the requirements under the *Public Finances (Management) Act 1995 (as amended)* by not furnishing its financial statements and reports before the end of 30 April from the close of a fiscal year for audit purposes. This report is for 31 December 2016 whilst 2017, 2018, 2019 and 2020 financials remained outstanding at 25 February 2022.

Revenue

During the year NGCB had earned K415,494 as Text Lotto Levy. In the absence of a proper monitoring and reporting system, I could not confirm the correctness and completeness of the amount earned.

I recommended that management introduce a standard of operating procedures as well as a lottery monitoring system which can generate reports and audit trails to ensure revenue loss is not going undetected.

Direct Costs – Gaming Machine Service and Monitoring Fees (K7,903,586)

Clause 4.2C (1) of the Agency Agreement between NGCB and the Agents was to provide records of machines and sites serviced in the month to NGCB. However, I noted that the Agent was billing K483,092 on a monthly basis of servicing 1597 machines up to May 2016 and then monthly fees increased to K573,842 for servicing 1897 machines. These were not supported with adequate and/or appropriate documentation. In absence of the same, I cannot confirm the correctness of service fees charged in the year.

In addition, I noted that an order was made for supplying 45 game conversions and 22-inch LCD screens for converting old existing machines in the warehouse. The cost of order from Australia was invoiced at AUD 108,000 (K270,541). This cost had been taken up as gaming machine service cost instead of being recorded as part of fixed assets. I was not able to confirm if the ordered items were received.

I recommended to management that all monthly invoices have to be substantiated with monthly service reports to avoid unauthorized or excess service fees being charged.

Weaknesses in Procurement Process

During my review, the following internal control and procurement weaknesses were noted:

- **Professional Promotions – K1,281,141**

A payment of K445,305 was made to a company for the supply of corporate gifts (K182,079), promotional items (K202,814) and staff polo/caps (K60,411). These payments were only supported by unsigned invoices. I was not able to confirm if the ordered items were received and accounted for in respect of distribution and stock on hand.

I also noted that one of the directors and shareholder of this company was also a Trustee of NGCB's Community Benefit Fund. I did not sight any disclosure of this fact and/or declaration of interest. I also noted that other payments were made to this firm for supply of other goods and services. I was not able to establish if proper quotes were obtained prior to sourcing the above items. In the absence of this information, I cannot rule out miss-procurement.

- **Advertising and Public Relations – K1,332,886**

A company was paid an amount of K496,659 for the supply of 3500 polo shirts and caps as Gaming Machine Operators merchandise. In respect of this payment, there were no supporting documents to confirm delivery/receipt of the ordered merchandise and distribution summaries to confirm receipt by various gaming sites. The invoice price included shipping and agency fees of K120,658 (without being a tax invoice), for items that were to be supplied locally and GST charged was K45,151. I could not confirm if other quotes were obtained to ensure value for money was obtained.

- **Legal Fees – K1,397,948**

As noted in the previous year (2015), National Gaming Control Board continued to pay for legal fees even though a legal position was approved as per the Department of Personnel Management (DPM) approved structure. During the year a total of K1,397,948 was paid as legal fees.

These payments were not supported by any scope of work to quantify the claims. I could not confirm if NGCB had reviewed the charge out rates to ensure that rates charged agreed to scope of work as well as to ensure that charge out rates were not inflated.

- **Entertainment and Functions – K456,953**

I noted that entertainment and functions expenses exceeded its budgeted amount of K300,000 in the year under review. I was not provided with justification or explanation on this overspending.

- **Insurance – K371,531**

The Motor Vehicle Insurance Policy reflected sum insured as declared value or the current market value at the time of loss or damage, whichever is the lesser. Considering this, I noted that there were number of motor vehicles insured for greater amounts, when these had nil written down value and/or less than amounts declared for insurance purposes. This action may have resulted in paying unnecessary high premiums on motor vehicle insurance.

- **Other Expenses**

I noted that payment vouchers amounting to K394,025 were found to be missing as I could not perform my tests to substantiate or verify as to whether proper procurement processes were followed and amounts stated were correct.

29.3 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 Board for the year ended 31 December 2017 was in progress.

The Board had submitted its financial statements for the years ended 31 December 2018 and 2019 and arrangements were being made to commence these audits shortly.

The Board had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

29A. NATIONAL GAMING CONTROL BOARD COMMUNITY BENEFIT FUND TRUST (A subsidiary of National Gaming Control Board)

29A.1 INTRODUCTION

29A.1.1 Legislation

The Community Benefit Fund (CBF) was established under *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 CBF commenced operations in 2008.

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 into this account.

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.

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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

29A.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the inspection and audit of the accounts and records of the Fund for the year ended 31 December 2016 was issued on 25 February 2022. 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 NGCB Community Benefit Fund Trust 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 *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;
- (b) Proper accounting records have been kept by the Trustee, 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

Donations – K61,748,474

My review of the donations made as at 31 December 2016 revealed the following:

- Donations totalled K61,748,474 had been paid out and committed for various purposes during the year. However, I noted that K50,748,474 worth of donations/financial assistance were not supported with any form of acquittal/reports;
- There were no follow-ups on prior period outstanding acquittals worth K108.5 million; and

- The Board of Trustees did not have a tracking, monitoring and compliance system to do physical random checks to ensure donations were utilised for their intended purposes.

As a result, I am unable to confirm the validity of the respective payments and whether they were made for the intended purposes. In addition, I am unable to place any reliance on the effectiveness of the internal controls surrounding the management and acquittal of donations.

Provision for Doubtful Debts – K3.9 Million

I noted that financial statements prepared from MYOB files with incorrect opening balances had resulted in adjusting entries to be posted to match off the closing 2015 balances. This had resulted in an adjusting entry of K3.9 million against provision for doubtful debts to balance the trial balance. Consequently, amount receivable from NGCB is reflected as K203,134 which was understated by K3.9 million.”

29A.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2) of the Audit Act* on the inspection and audit of the accounts and records for the year ended 31 December 2016 was issued on 25 February 2022. The report contained the following significant matters:

Trust

My review of the Trust noted that there was no gazettal of the Trust Deed. As highlighted in past audits, the Trust Deed also did not make any reference to *Public Finances (Management) Act, 1995 (as amended)*, on who can apply for assistance, the acquittal needs, investments and accountability.

In addition, the delay in preparation of financial statements was also a breach of *Clause 10.4(d) of the Trust Deed*.

Donations

My review of the donations made during the year revealed several weaknesses as noted below:

- As highlighted in my prior years' reports, a number of payments were made based on request and memos from the office of the Prime Minister, however, no proper confirmation and approvals were sighted;
- Donations made to government departments, districts and provincial treasuries appear to meet respective budgetary shortfalls and/or unbudgeted public investment program;
- A payment of K194,000 was made in cash advance for duty travel to the Chairman of Public Accounts Committee (PAC), the very body entrusted to ensure Public accountability including that of NGCB and CBF. I did not sight the original advance request as this advance remains unacquitted to date. This is seen as irregular or improper.

As a result of the above observations, I was unable to conclude on the effectiveness of the internal controls surrounding the administration of the donations paid out of the CBF and whether value for money was achieved.

Board Expenses

I was not provided with access to details of the Board of Trustee (BOT) related payments. In the absence of this, I could not confirm the legitimacy and correctness of the amounts charged as K380,266.

29A.3 STATUS OF FINANCIAL STATEMENTS

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

The Fund had submitted its financial statements for the years ended 31 December 2018 and 2019 and arrangements were being made to commence these audits shortly.

The Fund had not submitted its financial statements for the years ended 31 December 2020 and 2021 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, 2017, 2018, 2019, and 2020 had been submitted. However, the audits were being delayed due to lack of cooperation from the Corporation.

The Corporation had not submitted its financial statements for the year ended 31 December 2021 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 lack of cooperation from the Company.

The Company had not submitted its financial statements for the years ended 31 December 2015, 2016, 2017, 2018, 2019, 2020 and 2021 for my inspection and audit.

31. NATIONAL INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

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 government statutory authority, established to regulate the telecommunication industry in PNG.

Under the *Post and Telecommunication Corporation (Corporatisation) Act 1996* assets, rights and liabilities as well as employees of the Corporation were transferred to PANGTEL as per the allocation statement approved by the then Minister for Communications at the net book value recorded in the books of the Corporation as at 31 December 1996. In the same manner, the assets, rights and liabilities as well as employees of PANGTEL were transferred to NICTA by virtue of *Section 305* of the *National Information and Communications Technology Act*.

31.1.2 Functions of the Authority

The main functions or principal activities of the Authority are to exercise all licensing and regulatory functions in relation to the Information and Communications Technology Industry and perform all other functions as stated under *Section 9* of the *National Information and Communications Technology Authority Act 2009*.

31.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

31.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2017 was issued on 29 April 2022. 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 National Information & Communications Technology 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 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 it appears from my examination of those records; and
- (c) I have obtained all the information and explanation required.

BASIS FOR QUALIFIED OPINION

K10.5 Million Loss on Purchase of Badihagwa Land for NICTA’s Proposed Home Ownership Scheme

On 6 December 2014, the National Information & Communication Technology Authority (NICTA) and the local land group executed the agreement for sale and transfer of land where NICTA paid a total of K10 million for the land (paid in two installments of K5 million each on 24 December 2014 and 6 May 2015). Additional payments relating to the land purchase were made between April 2013 and July 2016 totaling K523,663.

The full payment of K10.5 million for the purchase of the Badihagwa Land has been fully impaired in 2017 and previous years as the management assessed that the amount may no longer be recoverable. Despite full payment in prior years for the agreed selling price, the title has not been transferred and NICTA did not obtain any control of the property to date.

Based on the information provided to me and prior to full payment of the selling price, NICTA’s management overlooked the moratorium suspending all land dealings in Special Agriculture and Business Leases (SABLs) and did not consider other ongoing disputes existing to date over the legal ownership of the aforementioned property. Had management followed due process and conducted due diligence surrounding the purchase of the property, the K10.5 million loss could have been avoided. Further, although there were indications that malfeasance maybe involved, my procedures were limited to the conduct of statutory audit and did not confirm actual fraud, which may be uncovered in a forensic investigation.

To date, management has not conducted a proper investigation to ensure those found to be involved are charged or money recouped.

Land and Buildings

The statement of financial position at 31 December 2017 includes land and buildings with a net book value of K43,720,296. Included in this balance are certain properties with an aggregate net book value of K11,419,122 for which I have not been provided with sufficient appropriate audit evidence supporting the Authority's ownership over the properties.

Further, my review of the asset revaluation reserves account revealed that the amount was not fairly stated as certain properties listed under the land and building were not included in the revaluation process of the Authority. As per *International Accounting Standard (IAS) 16, if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which the asset belongs should be revalued.*

As a result, I am unable to conclude on the appropriateness of the recorded value of land and buildings in the statement of financial position.

Investment Property

The statement of comprehensive income for the year ended 31 December 2017 includes rental revenue of K177,441. This income was derived from the rental of certain properties included within the land and building account under property, plant and equipment in the statement of financial position. To the extent that the properties are held to earn rental income or derived capital gains, they are likely to meet the definition of investment property. However, the Authority had not reviewed the list of its capital assets and properly classify separately to meet the definition of investment property to comply with the *International Accounting Standards (IAS 40) – Investment Property.*"

31.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2017 was issued on 29 April 2022. The report contained the following observations:

K10.5 Million Loss on Purchase of Badihagwa Land for NICTA's Proposed Home Ownership Scheme

In my 2015 report, I noted lack of proper supporting documentations relating to the procurement process involved in the execution of the above land deal. I was further advised that the Authority will continue pursue the title which I noted to be outstanding at the end of the 2015 financial year. Subsequently in 2016 audit, I issued a modified audit opinion in which one of the issues was the lack of title over the said land for which K10.5 million was paid.

The above issues remained unresolved according to my review and audit of the accounts and records for the year ended 31 December 2017. Based on the information provided to me and prior to full payment of the selling price, NICTA's management overlooked the moratorium suspending all land dealings in Special Agriculture and Business Leases (SABLs) and did not consider other ongoing disputes existing to date over the legal ownership of the aforementioned property. Had management followed due process and conducted due diligence surrounding the purchase of the property, the K10.5 million loss could have been avoided. Further, although there were indications that malfeasance may have been involved, to date, management has not conducted a proper investigation and those found to be involved are charged or money recouped.

Expiration of Service Terms of the Directors

I noted that there was no appointment of the Chairman of the Board from 30 October 2015 and independent expert from 28 May 2016 up to the signing of the 2016 audited financial statements in August 2020. In this regard, no formal board meetings were transpired from those dates as the available members did not constitute a quorum as per the *NICTA Act, 2009*.

Hence, I noted that several meetings were held subsequent to the expiration of the service terms of the above Directors, including the approval on the construction of the new NICTA head office building.

At the time of this report, management have indicated to me that these Directors were re-appointed. However, I was not provided with any relevant supporting documentation on the re-appointment of these Directors.

I recommended the management of the Authority to ensure that relevant documentation for the re-appointment of its Directors to be on file for reference.

Overstatement of Annual Leave

I noted a number of employees have a total number of annual leave credits that were greater than 45 days. As per the Authority's Terms and Conditions of employment, annual leave credits should not be allowed to accrue for more than 45 days or 3 years of continuous service. After 3 years of continuous service, leave credits should cease to accrue and the employee should take the annual leave.

In addition, I noted that the Authority's schedule for the provision for long service leave was not consistent. Prior years' leave entitlements of several employees were lumped in the current year column.

I recommended the Authority to remind its employees of the Authority's Policy and encourage the staff to take their annual leave as usual when they are due. I also recommended that the Authority revisit its provisions for long service leave schedule and update accordingly. I brought my observation to the Management and they responded as follows:

"Recommendation noted. NICTA will ensure to implement the recommendation."

Late Lodgment of Group Tax (SWT Returns)

Late remittance of Group Tax (SWT) attract penalties from the Internal Revenue Commission that can accumulate over time creating extra obligation to the Authority. During my review, I noted that certain remittances and lodgments of Salary and Wages Tax (Group Tax) returns to Internal Revenue Commission (IRC) were not done on time.

I recommended that the Authority remits its Salary and Wages Tax returns on time to avoid unnecessary penalties and interest that may be imposed by the Tax Office (IRC).

Non-Adherence to Motor Traffic Regulations (Chapter 243)

My physical verification exercise on the Authority's vehicles revealed that all motor vehicles owned by the Authority were not registered with 'Z' number plates to comply with *Part III, Section 19A* of the *Motor Traffic Regulation, 1967*. The Regulation states that "*Motor Vehicles owned by the State or a Statutory Authority shall bear three (3) letters and three (3) numerals in a series commencing with ZAA 000 and ending with ZZZ 999 having the first letter in red and numerals in black on a white background.*"

I recommended that the Authority adheres to this Regulation being a state Authority. The management acknowledged the issue when raised during my review.

Lack of Timely Reconciliation and Review of Account Balances

Whilst most of the significant general ledger (GL) accounts were examined with appropriate GL reconciliations, some were not reconciled at the end of the year such as the fixed assets, salary & wages tax payable, goods and services tax payable and interest bearing deposit with Kina Bank.

I recommended that management should conduct general ledger reconciliations on a periodic basis across all relevant GL accounts and ensure that variances are investigated and resolved in a timely manner. Periodic reconciliation of GL accounts assists in detecting any unrecorded transactions which may materially misstate the financial statements. A monthly self-assessment checklist approach should be put in place to monitor the timely completion of all reconciliations. The management acknowledged the issue and will ensure to properly reconcile the GL accounts.

Robust Credit and Collection and Effective Policy on Bad Debt Provisioning

There were several long outstanding accounts receivable invoices reported in the books without evidence of subsequent collection at the date of the audit. Long outstanding accounts receivable balances suggest inadequate credit control and monitoring and exposed the Authority to the risk of non-recoverability of invoices.

I recommended that the Authority should revisit its policy on customer credit monitoring to ensure that past due invoices were appropriately monitored, followed-up and actioned to ensure effective account collection from customers. Moreover, a policy on bad debt provisioning should be established to ensure that long outstanding invoices that are not recoverable are adequately provided for.

Maintenance of Supporting Documents

In a number of cases, I noted that the Authority's transactions did not have relevant supporting documents. This had caused hindrance on my audit procedures to verify the purpose and whether proper processes were followed as transacted.

In order to provide adequate substantial evidence establishing the existence and accuracy of transactions, I recommended that the Authority ensures all transactions be supported by required documentation.

31.3 STATUS OF FINANCIAL STATEMENTS

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

The Authority had submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 and arrangements were being made to commence these audits shortly.

32. NATIONAL MARITIME SAFETY AUTHORITY

32.1 INTRODUCTION

32.1.1 Legislation

The National Maritime Safety Authority was established by the *National Maritime Safety Authority Act 2003*.

32.1.2 Functions of the Authority

The functions of the Authority are to:

- perform the functions and exercise the powers as are conferred upon it by this Act or under any other law;
- co-ordinate search and rescue operations for vessels in distress or lost at sea pursuant to the terms and conditions of a search and rescue plan prepared by the Minister, from time to time, and approved by the Authority;
- co-ordinate with other agencies and persons, including regional and international organisations and consultants, whether local or foreign, on matters concerning maritime safety, marine pollution prevention or search and rescue operations at sea;
- collect data relevant to maritime safety, marine pollution prevention and search and rescue operations at sea;
- act on behalf of the State in relation to any domestic or international agreement relating to maritime safety, marine pollution prevention or search and rescue operations at sea to which the State is or may become a party;
- make recommendations on policy to the Minister regarding maritime safety, marine pollution prevention and search and rescue operations at sea;
- provide consulting services, training and management services relating to any of its functions whether in PNG or overseas;
- where appropriate to consult with:
 - *other agencies of National Government;*
 - *Provincial Governments;*
 - *Local-level Governments; or*
 - *commercial, industrial and other relevant bodies and organisations, in relation to matters affecting them in the performance of its functions; and*
- generally to do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

32.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Authority for the year ended 31 December 2020 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 2021 for my inspection and audit.

33. NATIONAL MUSEUM AND ART GALLERY

33.1 INTRODUCTION

33.1.1 Legislation

The National Museum and Art Gallery of Papua New Guinea was established under the provisions of the *National Museum and Art Gallery Act 1992*. This Act came into operation on 15 April 1992.

33.1.2 Functions of the Museum

The main functions of the Museum are to:

- protect and conserve the cultural and natural heritage of PNG;
- research and document the prehistory of PNG and manage the national archaeological collections, and monitor archaeological research in PNG;
- maintain the national register of traditional and archaeological sites;
- identify and maintain a register of national cultural property and monitor the collection and export of artefacts; and
- issue permits and perform other duties as required by the *National Cultural Property (Preservation) Act (Chapter 156)*.

33.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

33.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Museum for the year ended 31 December 2020 was issued on 10 May 2022. The report did not contain any qualification.

33.2.2 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 Museum for the year ended 31 December 2020 was issued on 10 May 2022. The report contained the following matters:

No Proper Database and Policy for Collections

My review of the Museum collections database revealed that there was no proper centralized database to accurately track and monitor storage and movement of collections for the Museum.

The collections data initially stored under file maker pro were migrated into Vernon Collection Management Software (VCMS). My review of Vernon software revealed inaccuracy as movement of collections were not properly posted and tracked. Further, I noted the following;

- Posting of collections data into Vernon currently was in progress and not fully completed;
- Not one (1) single collection from Contemporary Arts Branch had been posted into Vernon CMS;
- Museum was unable to reliably confirm total count of collections, only the Anthropology Branch responded to my query by providing a total count of collections; and
- No proper collection policy to guide the Museum on its collection program.

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

“NMAG agrees that this is a major issue. Work continues on the Vernon database but it is noted that this is a multi-year project and requires both additional financial and human resources.”

Lack of Contract Agreements

I noted that, there were no contract/service agreements between the service providers and the Museum during the year under review. As a result, I was unable to confirm the validity and correctness of the payments totaling K256,272 made to various service providers. I queried the Museum on this issue and they responded to my query as follows:

“National Museum and Art Gallery agrees and will take necessary steps to maintain and keep good records in future.”

Lack of Three Written Quotations – K165,220

My examination on expenses revealed several payments totaling K165,220 were paid without obtaining three (3) written quotations from three (3) different suppliers. It is a requirement under *Division 3, Paragraph 14* of the *Financial Management Manual* that, three (3) written quotes must be obtained for purchases valued between K5,000 and under K100,000. The museum did not comply with the *Public Finances (Management) Act, 1995 (as amended)* which governs the management and use of public funds. I brought this observation to the attention of the Management and they responded as follows:

“National Museum and Art Gallery acknowledges the issue. A policy re quotations was included in the NMAG Financial Manual and additional training will be provided. Purchasing officer to note circumstances where three quotations not obtained & explain reason on memo and FF3 form”

Salary & Wages Tax

During my review of the Salary, Wages and Allowances expenses, I noted that the salary and wages tax component for the manual (casual) payroll had not been remitted to the Internal Revenue Commission (IRC) for the year under review. The Museum had breached the *Income Tax Act, 1959* under *Section 299G (3)* which states that group tax should be paid to IRC within seven days of the following month. As a result of non-remittance of group tax to IRC, the Museum may be subject to penalties set out in *Section 299H* of the *Income Tax Act, 1959*. I brought this issue to the attention of the management and they responded to my observation as follows:

“National Museum & Art Gallery acknowledges the issue. Group tax is due within 7 days of month end. Finance has been instructed to ensure compliance.”

Non Compliance to Superannuation Act

The *Superannuation (General Provisions) (Amended) Act 2002, Section 78*, stipulates that the employee contributions be paid within fourteen days of the date of deduction and the employer contributions be paid within fourteen days of each month. However, during my review, I noted that both the employee and employer contributions, particularly the manual (casual) salary and wages earners were not remitted to the Super Fund (Nambawan Super Limited) for the year under review. As a result, the Museum had breached the above mentioned Act. I drew this issue to the Management of the Museum and they responded as follows:

“National Museum & Art Gallery acknowledges the issue. Finance has been instructed to ensure compliance.”

33.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Museum had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

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 inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the years ended 31 December 2018, 2019 and 2020 had been completed and results were being evaluated.

The Institute had not submitted its financial statements for the year ended 31 December 2021 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 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Authority had submitted its financial statements for the year ended 31 December 2020 and arrangements were being made to commence the audit shortly.

The Authority ceased operation in 2020 as the *National Roads Authority Act 2003* was repealed. As such, the 2020 report will be the last audit for the Authority to Parliament through the enactment of the *Road (Management and Fund) Act 2020*.

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 financial statements of the Council for the years ended 31 December 2020 and 2021 had been submitted and arrangements were being made to commence the audits shortly.

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, 2019, 2020 and 2021 for my inspection and audit despite numerous reminders from my Office.

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 2014*, 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 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, 2019, 2020 and 2021 for my inspection and audit despite numerous reminders.

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 to regulate the general insurance businesses in Papua New Guinea and administer the *Insurance Act 1995* and issue licenses to:

- Insurers;
- Brokers; and
- Loss adjusters.

39.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Office had not submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

40.2.1 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 2013 was issued on 3 March 2022. The report contained a Disclaimer of Opinion.

“DISCLAIMER OF OPINION

In my opinion, because of the significant of the matters described in the Basis for Disclaimer of Opinion paragraphs 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 Corporation for the year ended 31 December 2013.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances

My report on the financial statement of the Corporation for the year ended 31 December 2012 was a disclaimer of opinion in respect to cash and cash equivalent, MYOB accounting system transaction files, trade and other debtors, inventories, property, plant and equipment, trade and other creditors and retained earnings.

There were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance as to the correctness of the opening balances. Since the opening balances enter into the determination of the financial position, I was unable to determine whether adjustments might have been necessary in respect of the balances reported in the statement of financial position, statement of changes in equity and the profit reported for the year.

Internal Controls over Financial Reporting

Separate books of accounts were maintained for seven of the Corporation's cost centres. Five of these were related to Milne Bay, Kavieng, Hoskins, Bialla and Popondetta project offices and two (2) were related to the head office operations/functions and revenue account. My review over financial reporting of these operations revealed that adequate accounting records were not properly maintained including investments register, fixed assets register, staff advances register, general journal documentations and other important reconciliations. The general ledgers of these cost centres were also not properly reconciled. In light of these shortcomings which had placed limitations on my effort to obtain sufficient appropriate audit evidence for my opinion, I was unable to verify and confirm the accuracy, completeness and the validity of the balances reported in the statement of financial position and the statement of income and expenditure for the year ended 31 December 2013.

Cash and Cash Equivalent – K2,332,055

The Corporation had total cash and cash equivalent to the value of K2,332,055 as at the year end. This balance comprised of the following:

| Account Details | Amount (K) |
|----------------------------|------------------|
| Milne Bay Project Account | 4,130 |
| Kavieng Project Account | (19,093) |
| Hoskins Project Account | 165,245 |
| Bialla Project Account | 296,066 |
| Popondetta Project Account | 695,861 |
| Head Office Account | (76,631) |
| Revenue Account | 1,266,477 |
| | 2,332,055 |

Except for the Hoskins Project Account balance of K165,245 and the Revenue Account balance of K1,266,477, the cash at bank accounts of the other project accounts were not properly reconciled nor details of reconciliations provided to me for my review.

In addition, no petty cash count certificates were provided to ensure proper controls were being exercised over the operation of petty cash function. As such, I was unable to verify the completeness, existence, accuracy and the validity of the cash and cash equivalent balance of K2,332,055 reported in the financial statement.

Trade and Other Debtors – K3,712,513

Note 5 to the financial statements disclose amounts of K3,056,696 and K655,817 representing trade debtors and sundry debtors respectively. These balances comprised of trade and other debtors accounts from all the seven project offices of the Corporation. The general ledger of the accounts making up these balances were not reconciled. Further, I was not provided with appropriate supporting documents to verify the balances and their subsequent receipts. As a result, I was unable to verify and confirm the completeness, existence, accuracy and the validity of the trade and other debtors balance as stated in the statement of financial position.

Inventories

Inventories were recorded at K157,329 in the financial statements of the Corporation as at the year end. I did not observe the counting of physical inventories as of 31 December 2013. In addition, adequate inventory records such as inventory quantity and valuation reports were not maintained during the period. As a result, I was unable to verify and confirm the completeness, existence, accuracy and valuation of inventories balance reported in the financial statements.

Property, Plant and Equipment

The Corporation did not maintain a proper Fixed Assets Register to account for property, plant and equipment to the value of K5,374,600 disclosed in the financial statements. In addition, I was not able to conduct a physical verification exercise. As a result, I was unable to extend the scope of my audit procedures to verify and confirm the completeness, existence, accuracy and valuation of the Corporation's property, plant and equipment and related depreciation of K292,825 disclosed in the detailed statement of income and expenditure.

Trade and Other Creditors

As at 31 December 2013, I noted that trade and other creditors balance of the Corporation were recorded at K739,036. Included in this balance and as stated in *Note 8* to the financial statement is an amount of K1,333,098 representing trade creditors, an amount of negative K1,593,680 representing sundry creditors and an amount of K999,617 representing provisions and accruals. These balances were comprised of the trade and other creditors accounts of the Corporation's seven project offices. However, general ledgers of the accounts making up the above balances were not reconciled as at the year end. Important details such as detailed aged creditors listing, schedule of creditors listing and their subsequent payment details, schedule of provisions and accruals and the basis of their estimates and other important details were not maintained. As a consequence of poor record keeping, inadequate accounting procedures and significant compliance issues identified in those areas, I was unable to verify the completeness, accuracy and validity of the trade and other creditors balance of K739,036.

Retained Earnings

The total accumulated losses balance of K2,044,945 as stated in the statement of changes in equity is arrived at after an adjustment was processed to tie prior year retained earnings balance to that of the current year. The Corporation was not able to explain the variance in the retained earnings account to which the above adjustment was processed to rectify during my review. As such, I was unable to verify the completeness, accuracy and the validity of the accumulated losses balance of K2,044,945 disclosed in the statement of changes in equity.

Income and Expenditure

My review of the internal controls over financial reporting revealed that adequate accounting records were not properly maintained such as the MYOB records of the general ledgers relating to the income and expenses accounts, Fixed Assets Register, general journal documentations and other related reconciliations. The general ledger was also not properly reconciled. These issues have placed limitation on my efforts to obtain comfort over the completeness, accuracy and the validity of the Corporation's total income and expenditure of K 12,528,537 and K9,355,565 respectively as stated in the financial statements."

40.2.2 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 2013 was issued on 3 March 2022. The report contained the following matters:

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

The *Public Finances (Management) Act 1995, Section 63(2) and 63(4)* requires the Corporation to furnish to the Minister before 30 June each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements. Before furnishing financial statements to the Minister, the Corporation shall submit them to the Auditor-General who shall report to the Minister. However, the Corporation had not prepared and submitted its financial statements for the year ended 31 December 2013 to my Office on a timely basis to enable me to complete the audit on time for tabling the report in the Parliament on or before 30 June 2014. Accordingly, the Corporation has breached *Section 63(2) and 63(4) of the Public Finances (Management) Act 1995*.

MYOB Accounting Software Files

The Corporation has been maintaining its accounting records using the MYOB accounting software. During my review, I noted several inconsistencies in the manner the MYOB files were maintained. The Corporation did not maintain a single MYOB file for its respective project offices. Instead, several versions of the MYOB files for the 2013 financial year were maintained. In addition, I noted that MYOB data pertaining to the 2013 transactions were not backed up appropriately resulting in loss of MYOB files for head office, revenue, Popondetta, Kavieng and Milne Bay project offices. These complications resulted in the delay of the preparation of the financial statements and the audit of these financial statements of the Corporation.

I recommended that management should ensure systems are in place for proper back up of data.

Budget Process and Monitoring

The budgetary process of an organization aims to serve three purposes which are:

1. A forecast for income and expenditure;
2. A means to monitor organizational performance; and
3. A tool for decision-making.

For the Corporation, this process starts towards the end of any one year for subsequent year with the collection of data from various sources including within the head office, from project offices and within the Oil Palm Industry. All these data were incorporated into a final budget document which was presented at the last board meeting for the year for approval. This document was then monitored progressively throughout the succeeding period to ensure budget objectives were achieved and that expenditures were controlled within approved budget ceilings. However, I was not provided with the budget document for the year with a report on the comparison of actual versus budget with explanations on the variances. Consequently, I was unable to establish whether or not:

- The budget document was comprehensive considering all aspects;
- The projection of income and expenditures were realistic;
- Key budget elements/objectives were communicated right down to the project level;
- Key budget objectives were achieved, and
- Expenditures were controlled within the budget ceilings.

I recommended that management must ensure they have a budget process and budget developed every year for monitoring purposes. Management noted my comments for actioning in due course.

Unsigned Meeting Minutes

My review revealed that the Corporation's Board Meeting Minutes were not signed and approved to confirm the actual proceedings.

I recommended management to ensure that all meeting minutes are signed and approved as true record of discussions and deliberations of the Corporation's affairs.

Oil Palm Levy

The top five oil palm producing countries in the world were Indonesia, Malaysia, Thailand, Colombia and Nigeria. They supply more than 50% of the world's oil palm demand. Indonesia and Malaysia alone supply more than 40% of the world's demand for oil palm. To sustain their economies and industries, these countries also imposed levy on the oil palm produce. These countries' levies were imposed on the Crude Palm Oil (CPO) export and was totally different to how OPIC imposes levy which was based on the Fresh Fruit Bunch (FFB) or the raw material of the oil palm. I understand from my review that the FFB levy price formulae per ton which was used by OPIC was to the advantage of the milling companies as the pricing formulae was based on the raw materials as opposed to the crude palm oil which is the final product.

I recommended that management have to review the current legislation and pricing formula.

Management noted my observation and responded that:

“This will be done through a multi-stakeholder approach. First of which will be to amend OPIC Act which will pave way for review of pricing amongst others.”

Mill Production Reports

The Oil Palm Industry Corporation generates its revenue solely from the grower's levy and voluntary levy of K4 per ton of fresh fruit bunch respectively. The data required for the calculation of invoice amount by each project office was the production quantity in tonnage of fresh fruit bunch report supplied by the milling companies. I noted during my review that production quantity in tonnage of fresh fruit bunch report supplied by the milling companies was not independently verified by OPIC Project Officers. The respective OPIC Project Offices did not have representative(s) there at the mills to independently verify these monthly production reports. As a result, I was unable to comment on the effectiveness of the internal controls surrounding the revenue collection from growers and voluntary levies.

I recommended that management have to ensure mill production reports are independently verified.

OPIC Website

I noted during my review that the Oil Palm Industry Corporation did not have an official website which meant that it was not able to disseminate government policies, industry news, board and or management decisions and other important information to the growers, milling companies, employees and other stakeholders.

I recommended that management to ensure a website is in place. Management noted my recommendations and assured that they are looking at the possibility of implementing this with the aid of their IT division.

Land and Building

At the end of 2013 financial year, titles of land and buildings on which the OPIC project offices are located were under the Department of Agriculture and Livestock. These titles were not transferred at the time OPIC was established.

I recommended that management needs to communicate with Department of Agriculture and Livestock and transfer all the rights to land to the Corporation. Management noted my observation and stated they would look into it going forward.

Engagement of Financial Consultant

I noted during my audit that a consultant was engaged to prepare and compile the books of accounts of the Corporation for the 2013 financial year. My review of the work undertaken by the consultant revealed sub-standard outcome. The general ledger of the various project offices including that of the head office were not reconciled correctly. Important registers, such as Fixed Assets Registers, Staff Advance Registers and investment registers were not compiled correctly. Further, I noted that the engagement of the above consultant by the management was a waste of funds. There was no need to engage a consultant in this exercise as the Corporation had in employment a financial controller and six project accountants for its project offices.

I recommended that management needs to review the engagement and use its own in-house accountants and/or engage a qualified accounting firm to fix its books and financials. Management responded that they are aware of these issues and have ceased the engagement and utilizing internal accounting staff for all accounts work.

Organizational Structure, Approved Salary Scale, Employment Contracts, Employee Benefits Listing and Employee Provisions

I was not provided copies of the organizational structure, the SCMC approved salary scale, the employment contracts for senior management and the staff listing with benefits. As a result, I was unable to establish if the current structure is relevant given the size of the Corporation's operations and whether or not the employee salary levels and benefits are in line with SCMC approved salary scales.

I recommended management to address these issues going forward.

40.3 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 2014 was in progress.

The Corporation had not submitted its financial statements for the years ended 31 December 2015, 2016, 2017, 2018, 2019, 2020 and 2021 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;
- any functions conferred upon it by *Part III Division 2 (Leadership Code)* of the National Constitution; and
- any functions conferred upon it by or under an Organic Law.

41.2 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 2019 and 2020 had been completed and awaiting management letter responses to finalise and issue the reports.

The Commission had submitted its financial statements for the year ended 31 December 2021 and arrangements were being made to commence the audit shortly.

42. PAPUA NEW GUINEA ACCIDENT INVESTIGATION COMMISSION

42.1 INTRODUCTION

42.1.1 Legislation

The *Papua New Guinea Accident Investigation Commission* was established under *Section 218 of the Civil Aviation Act 2000 (as amended)* and came into operation in January 2011.

42.1.2 Objective of the Commission

The principal purpose of the Commission is to determine the circumstances and causes of accidents and incidents with a view to avoiding similar occurrences in the future, rather than to ascribe blame to any person.

42.1.3 Functions of the Commission

- The principal function of the Commission is the investigation of aviation accidents and incidents;
- The Minister may, by notice in the National Gazette, direct the Commission to investigate any serious land or marine transport accident or incident;
- Where a direction is given under *Subsection (2)*, all references to an “*aircraft*” shall be read as a reference to the vehicle or vessel or other form of transport involved in the accident or incident to be investigated; and
- 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 2021 was issued on 20 June 2022. The report did not contain any qualification, however, an Emphasis of Matter.

“EMPHASIS OF MATTER

Impact of Covid-19

I draw attention to *Note 7* of the financial statements which discloses the impact of the Covid-19 global pandemic in relation to operations of the Commission. My opinion is not modified in respect to this matter.”

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 2021 was issued on 20 June 2022. The report contained the following observations:

Salary and Wages Tax (SWT) Reconciliation

My review of the Tax Statement of Account (SOA) issued by the Internal Revenue Commission (IRC) as at 4 May 2022 revealed existence of tax credits and penalty charges of K254,556 and K117,641 respectively. During the year, PNG Accident Investigation Commission had not performed reconciliations of the SWT account balance in its books against the IRC's SOA balance to ensure accuracy of the SWT payable. I brought this issue to the attention of the management and the management noted my observation and stated that the Commission's Accountant has commenced discussions with IRC to resolve the matter.

Unsigned Board Meeting Minutes

The minutes of some Board meetings provided for my review were not signed by the Chairman hosting the respective meetings during the year. As such, I was unable to verify the legitimacy and validity of the discussions and resolutions made and recorded in the minutes.

I advised management that unsigned minutes render any Board discussions and resolutions made unenforceable and could bear negative financial impacts. Hence, I recommended the management to ensure that all Board meeting minutes are signed by the Chairman to validate every resolution made by the Board in each meeting.

Management in response stated that the Commission will draft a Board Management Policy to cover all areas to do with the Commission's Board including minute signing, Board meeting schedules and Board related expenses.

Rental Agreement

My review of the rental accommodation leases of the Commission's employees revealed that renewal of some leases were arranged under verbal agreements. I advised management that potential problems are imminent from reaching agreement verbally. I therefore advised management to prepare lease agreement for employees entitled to accommodations paid for by the Commission. Management agreed and stated that Human Resources (HR) will revisit and polish the HR Policies and Procedures Manual to clearly state that no oral lease agreement will be entertained by the PNGAIC effective immediately.

Receivable from National Agriculture Quarantine and Investigation Authority (NAQIA)

As reported in my prior year audit, NAQIA is to refund all payments received from the Commission over the past years, prior to 2021. I was informed that the refund receivable from NAQIA had transpired from discussions made in a meeting held on 25 November 2020 between NAQIA, the Commission and the Government Office Allocation Committee (GOAC) of the Finance Department. However, I was unable to confirm the substance of the transaction or the undertakings made in the discussions as no formal resolution has been provided for my review to this date of my report. Accordingly, I advised the Commission to obtain a formal signed resolution to properly support the claim from NAQIA.

Management noted my finding and responded that they will plan and organize a meeting with NAQIA and GOAC regarding this matter to obtain written resolution from NAQIA.

Fixed Assets Registration, Reconciliation and Verification

I noted that the particulars of the fixed assets of the Commission were not appropriately registered in the new Attache Accounting Software. There were no details including acquisition date and the rate of depreciation for each asset. Additionally, freight costs to a value of K72,724 incurred during the year were not capitalized. Accordingly, I advised management that Fixed Asset Register (FAR) must be updated regularly taken into consideration the type of transactions incurred during each financial year to avoid misstatement of the account balance. Management agreed to my finding and responded that all aspect of FAR maintenance will be clearly stated in the Asset Management Policy.

The Commission's Policy on Annual Leave

I noted that the employees of the Commission are entitled to recreational leave after completion of six (6) months of continuous service with the Commission. However, the Commission's policy contradicts with the provision of General Order 14.31 which states that recreational leave may be taken when an officer has completed a 12 months period from which the officer commenced the duty after appointment.

As such, I advised the management that the provisions contained therein the General Orders are superior and must be complied with and cannot be overridden. The Management noted my finding and agreed that Human Resources will be instructed to revise the leave policies to align with the requirements of the General Order 14.

Financial Delegation Authority

The Commission issued its new Financial Policies and Procedures Manual (FPPM) in October 2020. As per the advise from management, implementation of the FPPM has been deferred as there has been no stability in management teams requiring qualified managers to head the key functional units. Accordingly, as I reported in the prior years, the Chief Executive Officer (CEO) of the Commission still had the ultimate (highest) financial authority to approve all expenditure irrespective of the values during the year.

I advised management that such practice of giving financial power of approval to a single person without checks and balances can lead to an abuse and misuse of public funds. Hence, I advised the management to recruit the needed managers and implement the new FPPM to address the issue.

Management reiterated that they still have difficulties in filling four management positions of the Commission, and as such, the new FPPM might not be implemented until all the managerial positions within PNGAIC are fully occupied.

Fraud and Reporting System

My enquiry of the Fraud Reporting System revealed that the Commission had no fraud reporting system and guideline in place during the financial year under review. I advised management that occurrence of fraudulent activities may not be detected in a timely manner. Hence, I recommended the Commission to establish a fraud reporting system and guidelines. I further advised that any known or suspected fraud must be investigated and addressed by the Commission immediately.

Management noted my observation and assured that work on the Fraud Management policy has commenced.

43. PAPUA NEW GUINEA CUSTOMS SERVICE

43.1 INTRODUCTION

43.1.1 Legislation

The National Executive Council (NEC) in its meeting on 24 July 2014, *Decision No: 216/2014* approved that the Papua New Guinea Customs Service be transformed from the National Public Service into an Independent Statutory Authority through a separate Act of Parliament.

In accordance with the NEC Decision, the *Papua New Guinea Customs Service Act 2014* was drafted and certified on 21 October 2014, establishing the Papua New Guinea Customs Service as a Statutory Authority.

Prior to November 2014, the Papua New Guinea Customs Service was operating as a Department of the National Public Service.

43.1.2 The Functions of the Service

The functions of the Papua New Guinea Customs Service are to:

- administer and enforce the customs laws;
- promote compliance with the customs laws;
- take such measures as may be required to improve service provided to importers and exporters with a view to improving efficiency and maximising revenue collection;
- take such measures as may be required to counteract customs fraud and other forms of duty evasion;
- advise the State on matters relating to customs and to liaise with relevant stakeholders on such matters;
- represent the State internationally in respect of matters relating to customs; and
- carry out such functions as are given to the Papua New Guinea Customs Service under this Act or any other law.

43.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

43.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Service for the years ended 31 December 2017 and 2018 were issued on 29 April 2022. The reports contained similar Qualified Opinions, hence, only the 2018 report is reproduced:

“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 the PNG Customs Service for the year ended 31 December 2018:
 - (i) give a true and fair view of the cash 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 Finances (Management) Act 1995 (as amended)* and other generally accepted accounting practice in Papua New Guinea.
- (b) Proper accounting records have been kept by the Service 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

Administrative Accounts, Indirect Tax Collections and Transfers

One of three (3) functions of PNG Customs Service is to collect revenue for the Government and other third parties apart from Border Protection and Trade Facilitation. *Note 3(b)* to the financial statements contained cash at bank balances of all the administrative accounts totaling K186.2 million at year end. The administrative accounts contain all collections from the various excise and duty charges and also facilitates the transfers to the Government account (Waigani Public Account) and third parties.

Further, *Note 4(a)* disclosed total amount of collections and transfers of K3.028 billion and K3.042 billion respectively. However, I could not have comfort over the balances disclosed due to inconsistencies and irregularities noted pertaining to accounting system, bank reconciliations and general record maintenance. Further, the Customs Service did not clearly disclose the opening and closing balances of the administrative accounts. As a result, am unable to confirm whether correct amounts received, transferred and held at year end were reported in the financial statements.”

43.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Service for the years ended 31 December 2017 and 2018 were issued on 29 April 2022. These reports contained similar observations, hence, only the 2018 report is reproduced.

Revenue Accounting System

My review of the revenue collections and transfers revealed that the Service did not have an accounting system that links to Automated System for Customs Data (ASYCUDA) to systematically record and reconcile the revenue collected and transferred on a daily basis. Instead, the receipts and transfers were manually recorded and maintained in excel spreadsheets. Due to large amount of data in the ASYCUDA, information transferred to the excel spreadsheets may be manipulated or prone to mistakes and errors.

I recommended management to pursue an accounting system and integrate the revenue accounting into the ASYCUDA system.

Management responded to my observation as follows:

“Invited expression of interest (EOI) in 2019 and screened the bids down to 7 applications. Vetting process was delayed by Covid-19 breakout in 2020. In consultation with PNG Australian Governance Programme, the Programme agreed to fund and new EOI will be invited. A new accounting software will be installed before 2021 ends.”

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

Section 63(1) and 63(3) of the Public Finances (Management) Act 1995 (as amended) requires the Service to furnish to the Finance Departmental Head before 30 April each year, the financial statements and a performance and management report of its operations for the year ending 31 December preceding. However, the Service had 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 2019. Accordingly, the Service had breached *Section 63(1) and 63(3) of the Public Finances (Management) Act 1995 (as amended)*.

Cash at Bank – Internal Controls

In 2018, the PNG Customs Service maintained a total of nine (9) bank accounts as disclosed in *Note 3*. Four (4) of these, including the main operational account were established for the purpose of the Service. The other five (5) are administrative accounts whereby excise duties and levies are collected through and transfers are made out from to the Waigani Public Account (WPA) or other third parties.

My review on the bank reconciliation process revealed that the bank reconciliations were not prepared, reviewed and approved on a timely manner. No segregation of duties was observed in this function as well. Furthermore, the PNG Customs had not prepared any bank reconciliations for the revenue administration subsidiary trust account with a bank statement balance of K186,271,485.

I have reminded management of the implications on having weak and ineffective internal controls around cash management and recommended for improvement.

Fixed Assets – K48,912,269

The Service disclosed a balance of K48,912,269 in the *Note 7* to the financial statement for fixed assets. However, no proper and complete Fixed Asset Register (FAR) was maintained to appropriately record the assets. In addition, the following weaknesses were also noted:

- Motor vehicles purchased during the year were not taken up as assets and included in the FAR;
- The Service had not complied with Department of Treasury's Budget Circular #4 of 2017 requiring Public Bodies and Departments to put on hold purchase of motor vehicles;
- Twenty motor vehicles disposed but were not captured in the FAR nor reflected in *Note 7* to the financial statement;
- About 2,064 assets inclusive of those purchased up to 2018 did not have purchase values in the FAR although they are in good condition;
- No copy of the agreement between the Government of China and PNG relating to the donation of assets valued at K21,379,635;
- Almost all the assets located in the regional offices were not tagged nor included in the FAR maintained by the Head Office;
- Titles for the land and building including Madang Office owned by Customs were not provided for my review; and
- Progress reports on the staff housing scheme, Container Examination Facility (CEF) project at Lae old airport and Lae Tidal Basin were not provided at Northern Regional Office for my verification.

I cautioned management that public funds were expended by PNG Customs Service to the tune of K49 million up to 31 December 2018 for the purchase of fixed assets and that proper management of these assets should be maintained at all times. I further recommended management to provide update on the above weaknesses and outstanding items.

Advance Overtime

During my review, I noted payment of K13,575 dated 17 December 2018 paid to certain officers from finance and budget section as advance overtime payments. The payment was made in advance while the timesheets (actual hours work) was calculated later and attached to the payment voucher. I could not establish the basis on which advance overtime payments were determined and approved by the PNG Customs and as a result, concluded that such instances or practices constitute abuse of process and purpose of the overtime function. The same concern was raised in my 2017 audit review and report.

Management responded to my observation as follows:

“Every overtime payment comes to Human Resource (HR) for verification and confirmation of payment calculations before forwarding to finance and budget (F&B) for payment. Considering the date of the cheque payment in December of that year, it is understood that the payment was facilitated and processed nearing accounts closure at year end. F&B will explain further on this claim.”

Payroll and HR Function at Northern Regional Office

The following issues were noted during the Regional Office visit:

- Officers who have reached the retiring ages are still not been properly retrenched or laid off;
- A good number of positions at the regional offices are yet to be filled according to the approved structure;
- Payment regarding leave fares could not be properly verified as most of the vouchers do not have proper supporting documentations (such as birth certificates or NIDs) of legal dependents; and
- An officer within the space of one calendar year received two lots of leave fare payments. Cheque #375236 dated 3 August 2017 was paid in 2017 while cheques #171649 and #171727 were paid in 2018. Leave fares are to be paid after every two years.

No explanation or comments were provided by PNG Customs when I raised the above issues.

Development Project Expenditure

PNG Customs received K9 million from the government through the operating account for PIP projects. The money was then expended for development projects. However, no trust account was opened in any one of the banks to facilitate the operations of the projects and to keep separate from the normal operational functions. In addition, PIP submissions and progress reports were not provided for me to extend my audit procedures to validate the purpose and objective of the PIP grants received in 2018.

Lack of Proper Acquittal of Travel Advances

My review of travel and subsistence expense for the year revealed that payments amounting to K531,740 were not properly acquitted by concerned staff of the Service during the year. I also observed that the Travel Advances Register was not properly maintained by the Service in 2018 and prior years.

It is a requirement under the *Public Finances (Management) Act 1995 (as amended)* and the *Financial Management Manual Part 20 paragraph 11.2* that cash advanced to officers travelling overseas on official duty must be acquitted 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. As a result of the above, the Service has been continuously breaching the *PFMA Act 1995* and *Financial Management Manual* over the years.

Expenditure – Northern Region

My review of the Northern Regional Office's expenditure revealed weaknesses as follows:

- Acquittals for 2018 were not properly administered during the year;
- Cheque #170812 of K56,510 and #375675 of K50,000 were requested to be cancelled as per letter dated 23 August 2018. However, my review noted that cheque #170812 of K56,510 was not recorded in the PGAS system while cheque #375675 of K50,000 per was captured as paid. Further, there was no evidence of the above two cheques being cancelled in the PGAS nor the original cancelled cheques were attached with the payment vouchers;
- About K50,000 was made as advance payment to Prime Travel Services. However, I could not ascertain whether proper and timely reconciliations were prepared, reviewed and approved by senior officers to ensure all travel expenses against the advance are properly utilized. Lack of such control mechanism can result in the abuse and misuse of this facility;
- Prime Travel Services and Ronnie Builders were engaged by the Northern Regional Office to provide travel services and maintenance of properties respectively. As required by the *PFMA Act 1995*, minor contract agreements should be drawn to engage such services. During the review, copies of such contracts were not made available for my verification.

No explanation or documents were provided to me despite my recommendation.

Revenue Collection in the Regional Ports

During my inspection in the regional ports, I noted the following:

- No export manifest in the ASYCUDA World (AW);
- Hanging entries in ASYCUDA Plus Plus (A++) were not migrated to AW and outstanding balances were not extracted and reported or disclosed in the financial statements as notes to the accounts;
- Revenue collected from the seized goods were not disclosed in the financial statement; and
- In several ports such as Kokopo and Madang, certain cargos were brought to importers premises and inspection carried out and not within the Customs controlled areas.

It is understood that duties are also collected from exports and without the export manifest in the AW, I cannot be certain whether tax applied were actually collected and recorded. In addition, non-reporting of hanging entries with values defeats the purpose of correct and full disclosure of financial affairs of Customs. It is also questionable as to how funds were channelled and managed from the sale of seized goods and doing business at clients' premises pose a risk of malpractices and bribes without being detected.

No comments have been received from the Customs management when I raised these issues.

43.3 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 Service for the years ended 31 December 2019, 2020 and 2021 were in progress.

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*;
- 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 report to the Ministers under *Section 8(4)* of the *Audit Act* on the Authority's financial statements for the year ended 31 December 2015 was issued on 25 February 2022. 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 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 Papua New Guinea Forest Authority for the year ended 31 December 2015.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances

The report on the financial statements of the Authority for the year ended 31 December 2014 was a disclaimer of opinion in respect to royalty trust fund, plantation royalty, reforestation levy trust fund, project development levies, fixed assets, biological assets, suspense account, other liabilities, personal emoluments and employee provisions, litigation and claims liabilities. I was neither able to quantify the effects of such material misstatements of the opening balances that might have a bearing on the balances reported in the 2015 financial statements nor perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances or comparatives presented.

Any adjustments that are found to be necessary on such opening balances would have a consequential effect on the profit and loss for the year ended 31 December 2015 and the comparatives and the respective statement of financial position and statement of cash flows.

Non-Compliance with International Financial Reporting Standards (IFRS)

The Authority did not apply *IAS 41 Biological Assets* for the year ended 31 December 2015. The Standard requires an entity whose financial statements comply with IFRS to make an explicit and unreserved statement of compliance in the notes. Financial statements cannot be described as complying with IFRS unless they comply with all the requirements of IFRS (which includes *International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations* and *SIC Interpretations*). I was unable to determine whether any adjustments were necessary in respect of the Authority's financial position as at 31 December 2015, financial performance and cash flows for the year ended 31 December 2015.

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

The accounting records over timber royalties, plantation royalties, reforestation levies and project development levies for the year ended 31 December 2015 were not properly maintained and their balances are as tabulated below:

| Account | Note to the Financial Statements | Balance as at 31 December 2015 (K) |
|---|----------------------------------|------------------------------------|
| Royalty Trust Fund | 9 | 26,988,120 |
| Plantation Royalty | 10 | 25,237,046 |
| Project Development Levies and Benefits | 12 & 13 | 10,933,553 |
| Bulolo/Wau Plantation Revenue | 3 | 5,452,578 |

I was not provided with sufficient appropriate information for the execution of my audit procedures to satisfy myself as to the completeness, existence and accuracy of these balances.

Trade and Other Receivables

The trade and other receivables account as at 31 December 2015 was recorded at K13,806,636. I was unable to perform audit procedures to satisfy myself as to the completeness, existence and accuracy of this account as disclosed in *Note 7* to the financial statements due to lack of information.

Fixed Assets

I conducted my audit way after 31 December 2015 and it was impractical for me to perform physical verification of the fixed assets. No fixed assets verification was also performed by the Authority as at 31 December 2015 to confirm the existence of the fixed assets amounting to K43,161,477. In addition, I was unable to perform procedures to verify the status of the work in progress and therefore could not verify the completeness, existence and accuracy of these balances. I was unable to determine whether any adjustments were necessary in respect of the Authority's financial position as at 31 December 2015, financial performance and cash flows for the year ended 31 December 2015.

Suspense Account

The suspense account balance carried forward from prior years as at 31 December 2015 was K7,458,716. I was unable to perform audit procedures to satisfy myself as to the existence, accuracy and presentation of this account as disclosed in *Note 16* to the financial statements. I was unable to determine whether any adjustments were necessary in respect of the Authority's position as at 31 December 2015, financial performance and cash flows as at 31 December 2015.

Other Liabilities

The Authority disclosed K1,751,712 as donor project funds as at 31 December 2015. I was unable to perform audit procedures to satisfy myself as to the completeness, existence and accuracy of this account as disclosed in *Note 14* to the financial statements due to lack of available information.

Employee Benefits

The employee benefits as at 31 December 2015 was K14,493,702. No information was provided by the Authority for my verification. As such, I was unable to perform audit procedures to satisfy myself as to the completeness, existence and accuracy of this account as disclosed in *Note 15* to the financial statements.

Litigation and Claims

I was unable to perform independent confirmation for any 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 31 December 2015 or whether any adjustments may be necessary to the Authority's financial position as at 31 December 2015, financial performance and cash flows for the year ended 31 December 2015.

Operating Expenses

During the financial year personnel emoluments, communication fees, occupancy expenses, repairs and maintenance and log export monitoring project costs amounted to K27,752,999, K1,781,425, K1,517,584, K734,823 and K6,800,000 respectively. I was not provided with information to confirm the completeness and accuracy of these expenses.

As a result of these matters, I was not able to determine whether any adjustments might have been necessary in respect of recorded or unrecorded balances in these accounts, the balances making up the statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for the year ended 31 December 2015.”

44.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under *Section 8(2)* of the *Audit Act* on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2015 was issued on 25 February 2022. The report contained the following observations:

Maintenance of Accounting Records and Retention of Important Documents

During my audit, I noted a significant number of transactions with insufficient or no supporting documents. Most of the documents not provided were confirmed by the finance team to be missing. I also noted that most of the logging project agreements could not be located. The agreements outline:

- Agreed rates per volume (Kina per cubic meter);
- Benefits to be received by the Auditory and customary owners; and
- Purpose of benefits and recipients.

Without the agreements, I could not ascertain the completeness, existence, and accuracy of the revenue from logging companies and associated expenses and liabilities pertaining to the customary land owners.

This highlights an ineffective file management system maintained by the Authority, resulting in the loss of critical data required to maintain an audit trail. More importantly, it demonstrates a lack of appreciation of proper record keeping and blatant disregard of the duty to maintain records.

I advised the Management that it is essential for the Authority to adopt a discipline file management system, both manually and electronically wherein supporting documents are properly managed. Physical and electronic filing should complement each other to ensure data is preserved in the event of loss or unforeseen circumstances.

I also recommended the following points for Management:

1. Retrieve all project agreements not provided during the audit. If missing, the Authority request a copy of the agreement from the logging companies; and
2. Assign staff to maintain and update a logging companies agreement register, summarizing the key agreement terms (e.g. rates/volume/benefits/landowners etc) endorsed by the Forest Inspector or Officer and approved by the Managing Director on an annual basis or as an when required.

Non-Compliance with PNG *Forestry Act, 1991*

The *Forest Authority Act, 1991* and the *Public Finances (Management) Act, 1995* requires the Board of PNG Forest Authority to furnish to the Minister before the end of March 2016, an annual report on the progress and performance of the finances of the Authority in relation to its functions during the year ended 2015. However, the Authority had not complied with the above relevant acts.

Revenue Process

I noted that there was no documented revenue process and standalone revenue system that integrates with the general ledger, either through manual or automated interface. Currently, the revenue process starts with the Provincial Forest Officers (PFOs) receiving the payments from the logging companies and depositing into the bank account. The compiled documents are then submitted to the finance team to update the general ledger. However, when receipt of the revenue is delayed due to outdated processes and geographical constraints, the finance team resort to using the bank statements (incomplete information) to record revenue. Although, I was not able to identify any cut-off issues during my audit, the risk associated with this process is the understatement of revenue, receivables, and liabilities for the period. In my view, the internal controls surrounding the revenue process is weak and needs improvement.

Staff Housing Scheme

The PNGFA Housing Scheme (PNGFAHS) provides cash equity assistance to employees. Recipients of cash equity assistance are not required to repay the amount in cash. The amount shall be “suspended” under the Suspensory Repayment Arrangement, providing the employee to work for the Authority for ten (10) years upon receipt of the assistance, thereby repaying in full the equity. The suspensory repayment is calculated by reducing the amount at 10% per year for (ten) 10 years.

During my audit, I have noted that the Authority was using more than 10% or less than 10 years to amortize the cash equity assistance. This only shows a lack of review and oversight of the scheme amortization schedule and is likely to lead to staff to be relieved from the bond prior to (ten) 10 years of required service without recouping the correct unamortized advances.

I recommended management to review the amortization of cash equity assistance and apply the suspensory repayment rate of 10% for each employee.

Employee Costs – Payroll Testing

During my review of the payroll process, I noted that there was no monitoring of timesheets. The payroll section only comes to know of an employee’s absence at work if they are being notified. Based on this lack of control, the associated risks are:

1. Salary paid to staff who are absent from work; and
2. Inaccurate recording of annual leave/sick days.

I recommend monitoring of employee timecards to ensure that employee times are captured accurately and reflected in the Attaché’ payroll system.

Accounting System

I have noted that the Attaché’ accounting system is not fully utilized for several key processes particularly the trade receivables and payables sub-ledgers. The Authority does not maintain a sub-ledger account for each debtor and creditor in the Attaché’ accounting system, instead they use excel spreadsheets to monitor the debtors and creditors account. Postings of these transactions to Attaché’ were done using manual journal entries. Aging reports were not also available due to this manual process. This manual processing of journals and creditors transactions is susceptible to human errors and has a high risk of losing important information.

I recommended management to fully utilize Attaché’ by using the debtors and creditors sub-ledger as this can assist the management to minimize human errors in maintaining the debtors and creditors listing and efficiently monitoring outstanding invoices to customers and from suppliers.

Maintaining a Schedule of Capital Work in Progress (WIP) by Project for each Location

The Authority does not maintain a proper schedule of WIP. The schedule of WIP provided does not show the grouping of each transaction to a particular project and the status of each project at year end. This lack of proper monitoring may result in assets not properly capitalized or depreciated. It will also be difficult for management to monitor the progress and total costs incurred per project.

I recommended the Authority to assign a staff to monitor and maintain records of all the WIP transactions by project. Monthly reconciliations should be prepared and reviewed. Upon completion of each project the asset becomes available for use and therefore, the total amount should be capitalized as fixed assets and depreciated subsequently.

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 years ended 31 December 2016, 2017 and 2018 were in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 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 before 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, 2019, 2020 and 2021 for my inspection and audit, despite numerous reminders from my Office.

46. PAPUA NEW GUINEA INSTITUTE OF MEDICAL RESEARCH

46.1 INTRODUCTION

46.1.1 Legislation

The Papua New Guinea Institute of Medical Research was established by the *Institute of Medical Research Act (Chapter 166)* on 1 January 1980.

46.1.2 Functions of the Institute

The primary functions of the Institute are to conduct and foster research into any branch of medical science or biology, anthropological and sociological aspects of health, and matters relating to public health generally, that are of relevance to PNG.

46.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

46.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the Institute's financial statements for the year ended 31 December 2020 was issued on 30 June 2022. The report did not contain any qualification.

46.2.2 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 2020 was issued on 30 June 2022. The report contained the following comments:

Internal Audit

During my review on the internal audit division of the Institute, I noted that the Institute did not fully utilize the division to review various processes and systems and to provide necessary recommendation for the management to improve on the internal control weaknesses noted during my audits. There were no internal audit reports provided for my review as the internal audit position was vacant at the time of audit.

I recommended that the Internal Audit function be fully resourced and utilized.

Management concurred with my recommendation and would endeavor to fill the vacant position.

Bank Reconciliation

My review of the bank reconciliations for the thirty-five (35) bank accounts maintained by the Institute revealed that the Institute did not consistently maintain its monthly preparation and review of the bank reconciliations. As a result, discrepancies were noted in most of the reconciliations like balances incorrectly stated and posting errors.

I have recommended the Institute to prepare and review all its bank reconciliation statements on a monthly basis and management agreed to implement pending internal restructure.

Fixed Assets – K42,342,145

My review of fixed assets and related records of the Institute revealed the following discrepancies:

- Disposals and write-offs during the years were not appropriately taken-off the Register. My physical verification of assets confirmed that a material amount of assets in the Register had been disposed/written off but still had their historical values captured in the Fixed Assets Register; and
- Improvements/ upgrades made to existing assets did not have their costs added on to the existing assets in the Fixed Assets Register to come up with the new historical ending balance, instead these costs were treated as new purchases and recorded separately in the FAR.

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

Management responded to my observation as follows:

“The asset verification activity is in progress. The activity will proceed when a replaced fixed asset officer is recruited. Further, other issues relating to asset disposals, write offs, application of depreciation methods/rates and reconciliation between the fixed asset register and general ledger balances will be resolved as soon as the comprehensive asset verification exercise becomes complete.”

Current Assets & Liabilities

My review of all the current assets and liabilities per *Note 11* of the financial statements revealed that most of these transactions relate to inter-account transactions which have not been cleared at year end. I have requested for aged payables and receivables reconciliations but I was advised that the Sybiz accounting system does not generate payables and receivables reconciliations. In addition, the Institute did not manually prepare reconciliations. Further analysis also revealed that no proper records of inter-account transactions have been kept for easy reference as most of the receivables and payables relate to inter-account transactions. As a result, there were uncleared balances still presented under various clearing accounts.

Management concurred with my observation and ensured to take necessary actions to reconcile the inter-account balances.

Salary and Wages Tax Liability – K3,030,231

My review of the income tax lodgements revealed that the Institute has been up to date with its salary and wages tax lodgements for the year under review. However, my further analysis revealed that a summary statement of account provided by IRC dated November 2020 shows penalty charges against assessments amounted to K3,030,231 dating back to 2013. Though numerous dialogues have been established between the Institute’s management and the IRC to clear the backlog, this liability still remained at the time of audit.

I recommended management to continue dialogue with IRC to resolve this issue.

Management responded as follows:

“Management is aware of the matter and has been making numerous efforts in terms of meeting in person and providing all necessary and requested documentation to the tax office since December 2019 to resolve the outstanding tax liability amount of K3,030,231 dating back to 2013. The management will maintain its consistent dialogue with the tax office a way forward is established to clear the tax liability.”

46.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Institute had not submitted its financial statements for the year ended 31 December 2021 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 *Pacific Institute of Leadership and Governance Act 2017*.

47.2 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 years ended 31 December 2018, 2019, 2020 and 2021 had been completed and results were being evaluated.

48. PAPUA NEW GUINEA MARITIME COLLEGE

48.1 INTRODUCTION

48.1.1 Legislation

The Papua New Guinea Maritime College was established under the *Papua New Guinea Maritime College Act (Chapter 355)*. It was previously known as the Nautical Training Institute. However, by virtue of the *Nautical Training Institute (Change of Name) Act 1985* which became effective on 25 July 1985, the names of Nautical Training Institute and *Nautical Training Institute Act* were changed to PNG Maritime College and *PNG Maritime College Act* respectively.

48.1.2 Functions of the College

The principal functions of the College are to provide training and other instructional facilities for the theoretical and practical training of persons in maritime skills and any other objects incidental or ancillary thereto.

48.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

48.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the College for the years ended 31 December 2020 and 2021 were both issued on 21 June 2022. The reports contained similar Qualified Opinions, hence, only the 2021 report is reproduced.

“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 2021 and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION

Valuation of Property, Plant and Equipment – K11,759,716

I noted that since the establishment of the College, there was no valuation exercise carried out on its Properties, Plant and Equipment totaling K11,759,716 by an independent valuer to determine the fair values of the College's assets. Further, I noted that the College's assets recorded in the Fixed Assets Register did not have identification numbers or labels assigned to them. Without proper labelling of assets, the identification of fixed assets under the College's custody was difficult for my verification.

Further, the College has not carried out any stock-take on all its fixed assets over the years, 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 reports to the Ministers under *Section 8(2)* of the *Audit Act* on the accounts and records of the College for the years ended 31 December 2020 and 2021 were both issued on 21 June 2022. The reports contained similar observations, hence, only the 2021 observations are reproduced.

Title Deeds of College Properties

During my review of the Land & Buildings, I noted that nine (9) properties owned by 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 nine (9) properties. I brought the issue to the attention of the College Management and I was advised that the College would ensure title deeds of all properties physically owned would be pursued as soon as practical. Management further added that, communication had commenced with various stakeholders and would continue until the matter is being resolved.

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 matter to the attention of the Management in my previous audits and followed up during the current audit as well, however, the matter had been followed up by the Management with no success.

PNG Maritime College Board

Section 4 of the *PNG Maritime College Act, 1976* requires the College to have an established Board. *Section 11 (1)* Subject to *Subsection (2)* stated that, the Board shall meet at the times and places the Chairman from time to time appoints, but in any case, not less frequently than once in every three months. Further, *Section 11 (4)* stated that, the Board shall cause minutes of its meetings to be kept.

However, during my review, I noted that no Board was in place as required by the Act during the year under review. As a result, no board meetings were held. I brought this matter to the attention of the College Management and I was advised that the Board of the College was illegally constituted for a long while. The matter was raised by the Principal for clarity and redress at court to be rectified. The Principal had expressed need for a new Board soon after the court decision had been handed down with Department of Transport. Further, through the ministerial determination facilitated by NEC in 2021, the College's governance aspect is now with the Department of Higher Education, Research Science and Technology (DHERST) to nominate and constitute a Board.

49. PAPUA NEW GUINEA NATIONAL INSTITUTE OF STANDARDS AND INDUSTRIAL TECHNOLOGY

49.1 INTRODUCTION

49.1.1 Legislation

The Papua New Guinea National Institute of Standards and Industrial Technology was established by the *National Institute of Standards and Industrial Technology Act 1993* and came into operation on 3 January 1994.

The *National Standards Act (Chapter 378)* and the *National Technical Standards Act (Chapter 379)* were repealed, and all funds standing to the credit of and on accounts operated under the authority of the repealed acts and all assets and liabilities owned or held by the bodies established under the repealed acts were transferred to and became the assets and liabilities of the Institute on the commencement of the new Act.

49.1.2 Objectives of the Institute

The objectives of the Institute are: to carry out scientific and technological research and to develop a National Standards System; to co-operate with international organisations of measurement and technical standards; to promote and undertake industrial integrated standardisation and quality assurance; and to enter into any agreement both within and outside PNG to further the objectives and functions of the Institute.

49.1.3 Functions of the Institute

The main functions of the Institute are to:

- safeguard PNG against the dumping and supply of unsafe, unhealthy and inferior or substandard products;
- establish and co-ordinate the National Standardisation System;
- provide education, training and industrial extension and consultative services to assist industries;
- promote public and industrial welfare, health and safety;
- recognise as testing authorities, bodies and institutions;
- establish a National Certification System of conformity;
- assist industries overcome technical barriers on its products and services to international trade; and
- assist industries to produce quality products and services.

49.2 AUDIT OBSERVATIONS

49.2.1 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 2017, 2018 and 2019 were issued on 10 May 2022. The reports contained similar Qualified Opinions, hence, only the 2019 report is reproduced.

“QUALIFIED OPINION

In my opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of my report, the 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 Institute for the year ended 31 December 2019 and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION

Staff Advance – K359,872

The Institute disclosed K359,872 as staff advance in the financial statements. During my review, I noted that the Institute did not maintain a Staff Advance Register to record and monitor advance payments and collections so as to reconcile with general ledger records. In addition, the Institute had no documented policy for advances. As a result, I was not able to verify the staff advance amount as disclosed in the financial statements.

Fixed Assets – K6,077,778

As reported previously, the Fixed Assets Register was not provided for my review as it was not properly maintained and updated. As disclosed under *Note 15* to financial statements, assets purchased and disposed during the year were not adequately captured. As a result, I was not able to verify the amount disclosed in the financial statements.

Receipt/ Government Grant Warrant - K4,708,288

During my review of the Government Grant receipts of K4,708,288 for both the recurrent operational activities and payroll, I was not able to confirm these to the warrant documents issued by Department of Finance. However, I relied my audit on the bank statement balances for operational grant and FINO3 for the 26 fortnights for payroll since the Institute did not maintain any file for the copies of warrant to confirm the grant received by the Institute during the year. Furthermore, the Institute did not maintain the revenue schedules for other revenues disclosed in the financial statements in order to reconcile with the general ledger balances.”

49.2.2 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 2017, 2018 and 2019 were issued on 10 May 2022. The reports contained similar observations, hence, only the 2019 report is reproduced.

Non-Submission of Financial Statements

The Institute had not prepared and submitted its financial statements to my office before 30 April, 2020 to enable me to conduct the audit within the timeframe stipulated by the *Public Finances (Management) Act, 1995 (as amended)*. Consequently, the Institute had breached *Sections 63 (2) and 63 (4)* of the *Public Finances (Management) Act, 1995 (as amended)*.

Council Members Appointment and Meetings

The Institute had not appointed a Governing Council since their term expired on the 12th of April, 2015, as per the *Gazettal Notification No. G156*. The Council had prolonged these appointments since 2015 when the terms for the former Council members expired. I brought this matter to the attention of the Institute and they responded that the long process of members nomination from different organizations and their medical and police clearances contributed to the delay. After completion of the processes the change in Ministers delayed it further when the incumbent Minister passed on.

Corporate Plan

The Institute had not compiled a Corporate Plan to set clear strategic direction for its operations to achieve its objectives, sets priorities, targets and to take into account the requirements of its stakeholders. I brought this to the attention of the Management and they concurred with my observations and responded as follows:

“NISIT Currently has a Corporate Plan in its draft form ready to go before The NISIT Council hence the priority is to get the NISIT Council in place then move through to getting the Plan approved and Launching our Corporate Plan that will be approved once the Council Members are appointed.”

Fixed Assets Register

During my review of the Fixed Assets Register, I noted that the Institute did not maintain a proper Fixed Assets Register for all the assets under its custody and control. I was not provided an updated and complete Fixed Assets Register to enable me to determine the value of individual assets. In addition, there was no year-end stock take of these assets. As a result, I was unable to determine the fair value, condition and location of the fixed assets held under the custody of the Institute as at 31 December 2019. I drew this to the attention of the Management and they responded as follows:

“At the date of this audit the Institute was working on updating the Institute’s Fixed Assets Register and have completed a fixed asset register for 2019 Financial year.”

Travel Advance / Acquittals Register

The Institute did not maintain a Travel Advance/Acquittals Register to keep proper records of acquittals for all duty travels and related expenses. The Institute did not comply with the *Public Finances (Management) Act, 1995 (as amended)* which governs the management and use of public funds. It is a requirement under the *Financial Management Manual Part 20 paragraph 11.2* that cash advance to officers travelling overseas on official duty to acquit travel advances within 14 days of return from duty travel. While *Part 20 paragraph 12.10* of the Manual requires that advances to officers for domestic duty travel to be acquitted within 7 days of return from duty travel. Thus, I was unable to trace and authenticate advances and travel expenses against its acquittals. I brought this issue to the attention of the Management and they responded as follows:

“The Management acknowledged the Auditor’s observation and implication that emerged from this issue. The Institute will adhere to the Auditor’s recommendations to ensure that officers comply the requirements under the Finance Management Manual part 20.”

Personnel Emoluments

My review of the personnel files for employees of the Institute revealed that no proper and timely updating of staff personnel records were done. Information such as salaries and wages tax declarations, birth certificates, salary history cards, leave records and other correspondences relating to salary variations were not updated on a timely basis. I brought this issue to the attention of the Management and they assured me that necessary action would be taken by Human Resource to address this issue.

Concept Payroll

During my review of salaries and allowances of the Institute, I noted that the salaries are paid through the concept payroll from the Department of Finance through the grant appropriation for payroll. However, there was no proper monitoring performed by way of reconciliation by the Institute against the concept payroll system. As a result, the staff contract of employment salaries varies in terms of salaries and allowances paid through the concept payroll system. I brought this issue to the attention of the Management and they responded as follows:

“HR will ensure payroll is reconciled on fortnightly basis using Alesco Payroll report against the attaché report as well as conducting year end reconciliation.”

49.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Institute had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

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, 2019, 2020 and 2021 had not been submitted for my inspection and audit despite numerous reminders from my Office.

51. PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY AND ITS SUBSIDIARIES

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*.

Comments in relation to the subsidiary companies are contained in paragraphs 51A and 51B of this Report respectively.

51.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

51.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the University's financial statements for the year ended 31 December 2018 was issued on 1 September 2021. The report did not contain any qualification.

51.2.2 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 University for the year ended 31 December 2018 was issued on 1 September 2021. The report contained the following significant matters:

Attaché Accounting Software

The University has been using the Attaché accounting software as its accounting system to maintain its general ledger and books of account. Attaché is a comprehensive accounting and payroll software application designed to manage the daily financial activities, and allows fixed assets and inventory in multiple locations/departments to be interfaced with the general ledger. I noted during my review that the system has not been fully utilized in the following areas:

- a) The University's Fixed Asset Register (FAR) is currently being maintained using excel spreadsheets externally, rather than being automated by adding a fixed assets module to interface with the general ledger system. This is considered inappropriate for such a large and important institution with a wide range of property, equipment and other fixed assets; and
- b) The University does not maintain an appropriate inventory schedule with itemized listing of items indicating quantities on hand and their unit cost or valuations.

I advised the Management to address these issues by:

- a) Upskilling the relevant staff to be familiar with the Attaché system and the suite of application modules in order to maximize the software's benefits by adding the applicable modules to complement the general ledgers; and
- b) Alternative accounting software may be considered in the event Attaché is unable to incorporate the fixed assets and inventory modules that interface with the general ledger system.

Month-End General Ledger Reconciliations and Review Processes

I noted that the bank and cash reconciliations between the general ledger and bank statement balances showed no evidence of sign off by either the officers responsible for preparing or reviewing the reconciliations.

I further noted that Balance Sheet items of critical accounts were not reconciled in a timely manner including:

- Interest Bearing Deposit;
- Accounts Receivable;
- Property Plant and Equipment;
- Accounts Payable;
- GST Receivables and Group Tax;
- Other Accrual Accounts; and
- Work in Progress.

This matter was first reported in my audit of the 2017 accounts and the University management's response indicated that controls have been implemented as of the 2020 financial year. Nonetheless, the audit of the 2018 accounts indicated that the control weakness identified in 2017 persisted through the 2018 financial year.

I advised management that the finance and accounting team must ensure that all reconciliations and supporting work papers are prepared on a monthly basis, reviewed and signed off in line with best practices of internal controls. I also advised that reconciling items identified should be investigated and corrective actions taken on a timely basis to ensure the integrity of the general ledgers.

Petty Cash and Interest Bearing Deposit (IBD) Reconciliations

Monthly reconciliations with maintenance of appropriate schedules, reviews and investigations of reconciling items are a critical part of a sound accounting and management system. My review of petty cash and IBD revealed that reconciliations were not done on a timely basis with non-maintenance of schedules to ensure checks and balances in order to avoid possible misstatements and/or misuse of petty cash.

Accounts Payable (Monitoring and Utilisation of Grants)

I noted during my audit that the University's Project Department did not maintain a summary of grants and sponsorship funds indicating the amounts received from donors and sponsors and the amounts utilized in the required research or training. Consequently, I noted that research grants were returned to the donors because projects were not implemented and/or funds were not spent. Details of grants returned were as follows:

- **Service Unit** – K51,503 returned to the University of New South Wales being for the return of unspent grants on Australian Centre for International Agricultural Research programs; and
- **Appropriate Technology & Community Development** – K129,427 returned to UNICEF due to non-implementation of the UNICEF project.

I recommended that the University should prepare a detailed reconciliation schedule of the grants/sponsorship to accurately update funds that were already consumed or utilized on the specific research or training and also to ensure that grants are appropriately treated and updated in the General Ledger (GL).

Property, Plant and Equipment – K146,493,127

I noted the following significant issues during my review of the University's property, plant and equipment:

- The academic buildings were being depreciated over 18 years instead of 30 to 50 years as required by the University's accounting policy. As a result, the values of buildings were being written-off at much faster rates than their useful lives, resulting in significant understatement of the carrying value of the actual buildings relating to their remaining useful life. The University also applied the 30-year depreciation rate of 3% only to selected academic and administration buildings following my recommendations in the prior year audits; and
- The Fixed Asset Register (FAR) for the University and its affiliated schools were not properly maintained which resulted in the following discrepancies:
 - Lumping up of values;
 - Missing descriptions and categories of assets;
 - Depreciation calculated on zero net book value;
 - Assets having nil book value with no depreciation calculated on them and those with zero economic life still sitting in the Fixed Assets Register; and
 - Acquisition dates not stated on some assets in the register in order for me to determine their useful life and assess their depreciation rates.
- The University did not effectively carry out physical verification of fixed assets at 31 December 2018 on its assets located in various areas of the campus as well as the ones outside of the campus including the Lae School of Nursing, DODL, Timber Forestry College and Bulolo Forestry College.

I recommended management to immediately review its work processes and ensure the Fixed Assets Register is properly maintained to a reasonable level of accuracy and completeness to address the issues noted including appointing a fixed asset accountant to address the issues identified.

In its response, the management advised me of the recruitment of the fixed assets officer who is currently being engaged.

Buildings and Property Revaluations

I noted that the University carried out its last revaluation of its properties in 2003 and since then there were no assets revaluations done to date. Therefore, the University did not comply with the *International Accounting Standards (IAS) 16* under *Property, Plant and Equipment* revaluation model in valuing its assets every 3 to 5 years.

I recommended the University to conduct the revaluation exercise as required by *IAS 16* to show the correct value of its buildings and properties.

Management took note of the issue and advised that revaluations will be done in 2021 or 2022 to reflect the current market value.

Certificate of Completion (Properties, Plant & Equipment)

As observed in my 2018 audit, the University only issued the Certificate of Completion for its properties after specific audit request during the audit rather than issuing the Certificate upon projects completion as a matter of process as per its Finance Management Policy.

I recommended that controls over issuance of Certificate of Completion should consistently be applied upon completion of all capital works as per the University's Finance Management Policy.

PIP Funds and Capital Work-In-Progress

The University has accessed funding under the PIP program for the purpose of building a number of buildings including a messing facility. The funds were parked as deferred income and spent on the construction in phases. The total deferred income representing unspent funds relating to PIP programs and other capital and research projects was K39.016 million at 31 December 2018. A project management plan incorporating the financial plans and key milestones for completion and timetable was not made available for my audit review. I expected to see a plan that includes the following essential points;

- Financial Budget and Cost parameters;
- Delivery schedule or timetable; and
- Quality (fit for purpose) management procedures.

The finance division was unable to provide a schedule of costs incurred to date and the projected costs to be incurred to complete the projects.

I recommended that the University's finance division should be involved with the PIP project capital budgets and monitoring tools be developed to inform management of the project expenditure and the required resources to complete projects. Such monitoring tools should link the consumption of financial resources with the stages of project completion to ensure proper tracking and expenditure variations.

Statutory Financial Statements Audit

The University had not complied with *Section 63 of the Public Finances (Management) Act 1995 (as amended)* to prepare and furnish its audited financial statements to the Finance Secretary prior to the end of the fourth calendar month. The University's 2018 financial statements was not finalised before 30 April 2019.

I recommended management to comply with the *PFMA Act* by strengthening the finance function and to finalise the statutory financial statements as required.

Public Tender Process – Students Laptops

The University purchased 685 laptops (Dell Latitude 3490) for the first year students at a cost of K1.31 million. However, I noted that this expenditure was not made through the Central Supply and Tenders Board (CSTB) and the Certificate of Inexpediency was not provided for my verification. As per the *Public Finances (Management) Act 1995 (as amended)*, procurements above K500,000 must go for CSTB approval.

I recommended management to enforce compliance on existing procurement procedures and conduct regular review of its business cycle to avoid such practices.

The management noted my concerns and responded that:

“Unitech used to buy Dell Computer from the Manufacturer directly. Manufacturer always need the payment in advance. But due to foreign exchange shortage, Unitech was unable to pay the overseas currency in advance. It was advised to with the local dealer of Dell and accordingly Unitech procured laptop from the local supplier Digitec. However, Unitech is procuring the laptop from 2019 onwards through open tender.”

Lack of Recognition of Group Tax Penalties

My review of the group tax payable indicated that the University’s account with the Internal Revenue Commission (IRC) comprised of the amounts payable for group tax as at the balance date. A comparison of recorded amounts with a statement from IRC indicated a K9.27 million variance as follows:

| | Unitech (K) | IRC (K) | Difference (K) |
|--------------------------|-------------|------------|------------------|
| Group Tax Payable | 73,520,712 | 82,792,879 | 9,272,167 |

I noted that this variance relates to Internal Revenue Commission penalties against outstanding group tax assessment with IRC and the University did not recognize this penalty imposed as a result of non-compliance.

I recommended management to ensure that penalties charged by IRC for non-compliance must be properly recorded in the University’s books going forward.

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 years ended 31 December 2019 and 2020 were in progress.

The University had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

51A. NATIONAL ANALYTICAL AND TESTING SERVICES LIMITED (A 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 & Consultancy Limited and Star Mountains Institute of Technology Limited, each holding 60% and 40% 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 such as:

- 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 AUDIT OBSERVATIONS AND RECOMMENDATIONS

51A.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 2013, 2014, 2015, 2016 and 2017 were issued on 30 September 2021. 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:

- (a) The financial statements of National Analytical and Testing Services 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 appears from my examination of those records; and
- (c) I have obtained all the information and explanation required.

BASIS FOR QUALIFIED OPINION

Opening Balances

My report on the financial statements of the Company for the year ended 31 December 2016 was a qualified opinion in respect of trade and other receivables, inventories, property, plant and equipment, related party transactions, lack of integrity of the general journals and employee provision. Since the opening balances enter into the determination of the results of operations and cash flows of the Company for the year ended 31 December 2017, 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 2017. I was unable to determine whether any such adjustment to the financial performance and cash flows of the Company might be necessary for the year ended 31 December 2017.

General Journals

My review of the general ledger accounts revealed that the Company passed various general journals totaling K810,081 without proper supporting documentation, review, certification and approval. Copies of the general journals were not provided for my review. This has resulted in a limitation on the scope of my audit procedures as I was required to assess the significant inherent risk of management override of controls through the recording of fraudulent journal entries. I was unable to determine whether adjustments might have been necessary in respect of the profit reported for the year or to what extent, if any, there may have been fraud or errors as a result of the failure to maintain appropriate supporting documentation for journal entries.

Non-Disclosure of Related Party Transactions

During the course of the audit, I noted that the Company did not disclose the related party transactions in the financial statement as required by the *International Accounting Standard 24*. The following were identified to be the related party transactions:

- Loan to UDC K41,420;
- Unitech Debtors Account K11,001; and
- UDC Project Account K180,429.

Non-disclosure of related party transactions in the Company's financial statements is a departure from *International Accounting Standard 24*. I was not provided with supporting documentations to verify and conclude on the completeness and accuracy of the above balances.

Accounts Receivable – K632,105

The Company disclosed a balance of K632,105 as accounts receivable in the financial statement. However, there was no supporting documents such as invoices being kept by the Company to trace the invoices to the general ledger and to confirm whether the invoices were paid in the subsequent period. As a result, I was unable to verify and confirm the accuracy and completeness of the accounts receivable balance disclosed in the financial statement.

Other Debtors and Prepayments – K241,420

Included in the amount of K241,420 for other debtors and prepayments is an amount of K200,000 as deposits paid. This amount was a carried forward balance and supporting documents were not provided for my verification. Due to lack of proper supporting documentations, I was unable to perform necessary audit procedures to verify and confirm the accuracy and completeness of the amount at year end.

Fixed Assets Register (FAR)

I noted during the course of my review of the fixed assets that the FAR of the Company was not properly maintained. The values of the assets purchased in 2012 and prior years were lumped up. The details such as purchase date, custodian, asset description and location for each of the asset were not captured in the Register. My attempts to perform recalculations of the depreciation of these assets were also not possible. In addition, the Work in Progress of K1,107,802 disclosed in the financial statement was not captured in the FAR.

As a result, I was unable to perform the necessary audit procedures to determine and confirm the existence, valuation and condition of the assets of the Company as at balance date. I was also unable to confirm the accuracy of depreciation of K492,315 for the year that was charged to statement of comprehensive income.

Property, Plant and Equipment – K4,880,352

Included in the property, plant and equipment are the assets namely Malahang Shed work in progress, Malahang Shed Equipment and Malahang Geochemical Assay Facility each valued at K1,107,802, K3,396,195 and K676,908 respectively. I encountered the following during my review:

- a) Supporting documents such as payment vouchers, contract agreements and details of the equipments were not provided;

- b) No progress reports or evidence of work done on site for the Malahang Shed work in progress; and
- c) The laboratory was no longer in operation and the laboratory equipments were removed from the shed and stored in three (3) locked containers.

As a result, I was unable to verify and confirm the valuation, accuracy and the existence of the assets and their balances as reported in the Company's books.

Land and Building – K1,400,000

The Company disclosed a value of K1,400,000 for land and buildings in the financial statement. However, the title documents as proof of ownership of the land and buildings were not provided. I was informed that the land and buildings are State properties however, no adjustments were made to the balance. In my view, the balance of the land and buildings was misstated.”

51A.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 2013, 2014, 2015, 2016 and 2017 were issued on 30 September 2021. The reports contained similar observations, hence, only the 2017 report is reproduced.

Corporate Governance

My review of corporate governance of the Company revealed the following:

Corporate Plan

The Company did not have a corporate plan in place to determine the Company's internal capabilities and lay out strategies on how to use those capabilities to drive the Company in meeting its goals and objectives. A corporate plan specifies or should contain:

- A vision statement to define objectives that will guide internal decision making;
- A mission statement to outline how the Company will achieve its business plans;
- List of Company's resources and scope such as activities, programs, employees and assets;
- The Company's objectives along with how these objectives will be measured; and
- List of strategies the Company will use to achieve those objectives.

I advised management that without a corporate plan with its strategic directions, the Company may not fully achieve its objectives.

Management responded to my observation as follows:

“NATSL Management concurs that there never existed any formal corporate plan since its inception in October 2010 as a commercial laboratory. Despite the lack of a corporate plan, the laboratory’s core function in chemical testing services has been achieved through its commitment to quality compliance vision statement and achieving the goals of ISO17025 which governs all quality assurance and compliance certification.”

Internal Control Environment

The Company did not have control mechanisms in place to ensure assets were protected, Company was compliant with laws and regulations and the operations of the Company were efficient and effectively managed. The Company should have in place appropriate control mechanisms such as:

- Rental agreements, inventory system, service agreements and timely bank reconciliations; and
- Stock provision policy, bad and doubtful debts provision policy, fixed assets policy, staff housing policy, staff performance appraisal policy, inventory and cost of sales policy, accounts receivable and payable policy, procurement policy, information technology general controls (ITGC) policy and others that may be necessary to suit the operation of the Company.

In the absence of clearly designed and approved control systems and policies, there is a high risk of abuse and malpractice to take place within the Company. 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.

Management responded to my observation as follows:

“NATSL Management concurs that there is no policy to govern its assets and /or how these assets should be disposed off as and when written off. A general standard operating procedure must be formulated to control and manage its assets properly.”

Company Budget Documents

The Company did not have a budget in place for the year under review. A budget is an estimate of future income and expenses and it serves as a plan for action to achieve quantified objectives, standard for measuring performance and a tool for coping with foreseeable adverse situations.

Without a budget, the Company may not have a clear direction to achieve its targeted revenue and may spend on unnecessary expenses.

Management responded to my observation as follows:

“We agree to the findings and recommendations of the auditor. There has never been a workable budget throughout each fiscal year. All expenditures were addressed ad-hoc and on income generated concurrently. Discussions were already in place to expedite this important document. Management will prepare one commencing 2021 financial year.”

Board Meeting Minutes

My review of the board meeting minutes revealed that the Company’s Board Secretary and the Chairman did not sign all the board meeting minutes for the four meetings held during the year.

In the absence of signed board meeting minutes, I was unable to confirm whether the proceedings recorded were true and whether issues deliberated were in the best interest of the Company.

Management concurred with my finding and assured me that corrective measures will be taken.

Review of Month End General Ledger (GL) Reconciliations

I noted that there were no periodic reconciliations to the general ledger accounts such as cash and cash equivalents, accounts receivable, property, plant and equipment, work in progress, accounts payable, goods and service tax (GST) receivables, group tax, employee provisions and other accruals.

A robust accounting system should have strong internal controls designed to provide a reliable set of financial information for management in the decision-making process. This includes reconciliations and review procedures that prove the integrity of the amounts recorded in the books. Evidence of review and sign off ensures that officers take responsibility and also reconciling items including errors are detected and investigated in a timely manner.

Management responded to my observation as follows:

“Agree with findings. Since 2013, NATSL has been without a knowledgeable accountant who can ensure postings are done correctly, reconciliations are done on all balance sheet accounts on a regular basis and procedures are followed to ensure effective internal controls. Management is fully away of this and has ensured 2013 to 2019 are cleared as backlogs. Starting 2021 and onwards all audit observations will be applied.”

Cash at Bank - Preparation of Bank Reconciliations

The bank reconciliations for the Company's two (2) bank accounts and the master card account were not prepared, reviewed and verified by concerned officers on a monthly basis. Instead, I was provided with system generated bank reconciliations for the month of December for the three bank accounts. Bank reconciliation is a key control mechanism which helps to detect errors and instances of fraud and embezzlement, reconciles bank with the cash book and to report a correct ending bank balance. As a result, I was not able to place any reliance on the effectiveness of the internal controls surrounding the bank reconciliation function. Cash is very liquid in nature and the lack of independent review and timely preparation of bank reconciliations may result in errors and a high possibility of fraudulent activities to take place without being detected.

Management took note of my findings and pledged to improve in 2020 financial year and onwards.

Stock-Take

The Company had not conducted regular stock-take on its fixed assets for a number of years. Assets were not counted and tagged with asset numbers for verification and control. In the absence of regular fixed assets stock-take and numbering, assets that are idle, misplaced or stolen cannot be identified by the Company. As a result, I was unable to place reliance on the effectiveness of the controls surrounding the management of fixed assets at year end.

Personnel File Maintenance

My review of the Company's payroll management system revealed that personnel files for certain selected officers of the Company were not properly maintained. The following documents were not filed properly in their respective personnel files:

- History cards to show the up to date leave records;
- Salary cards to record the changes to the salary and allowances for each officer;
- Salary and wages declaration forms to show the declared dependents to claim for leave fares and for tax computations; and
- Birth certificates to verify and confirm the ages of the dependents claiming the leave fares.

In the absence of the above documents, I was unable to verify and confirm the leave records, changes to salary, declared dependents and their ages and calculation of salary and wages taxes.

Cost of Sales

The Company recognized expenses that were incurred directly in generating revenue for the Company as cost of sales. However, there was no clear policy on the inventory and cost of sales to confirm the classification of goods purchased for the production and goods purchased for the normal operation of the Company.

Procurement Process

My review of the Company's procurement process revealed the following weaknesses:

Travel Acquittal Register

The Company expended a total of K9,282 on travel and accommodation. However, the Company did not maintain a Travel Advance Register and there were no evidences of travels such as ticket butts, boarding passes and hotel accommodation receipts attached to the payment vouchers. In addition, most of the payments were not made directly to the service providers. Instead the money was paid in cash. Furthermore, the Company paid travelling allowances at K300-K330 per day without proper basis.

I was unable to confirm whether the staff had actually travelled and whether money was used for the intended purposes. In addition, I was unable to authenticate the rate of travelling allowance paid.

Cash Payments

I noted almost 80% of the expenditure was paid in cash. In 2017, cash payments were made to the service providers instead of cheques, an approach were fraud and embezzlement is likely to occur.

No Three (3) Written Quotations

Payments totalling K15,994 were made without obtaining three (3) written quotations as specified by the Company's Accounting Manual resulting in the Company not complying with its own procurement processes.

Payment Vouchers

Payment vouchers totalling K113,641 were not in file for my verification. Due to lack of source documents and proper record keeping, I was unable to perform the necessary audit procedures to determine the authenticity of these payments.

These issues were brought to the attention of the management and follow ups will be done in subsequent years' audits.

51A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had submitted its financial statements for the years ended 31 December 2018 and 2019 and arrangements were being made to commence these audits shortly.

The Company had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

51B. UNITECH DEVELOPMENT AND CONSULTANCY LIMITED **(A subsidiary of PNG University of Technology)**

51B.1 INTRODUCTION

Unitech Development and Consultancy Limited was incorporated under the *Companies Act*.

51B.1.1 Function 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 Company had submitted its financial statements for the years ended 31 December 2018 and 2019 for my inspection and audit and arrangements were being made to commence these audits shortly.

The Company had not submitted its financial statements for the years ended 31 December 2020 and 2021 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 years ended 31 December 2017, 2018, 2019 and 2020 had been completed and results were being evaluated.

The Fund had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

53. PNG ROAD FUND

53.1 INTRODUCTION

53.1.1 Legislation

The PNG Road Fund was established by the *Road (Management and Fund) Act 2020* and came into operation in 2020. The Fund absorbed operations from the abolished National Road Authority (NRA) on 1 March 2021.

53.1.2 Objectives of the Fund

The objective of the Fund is to oversee the collection, disbursement and monitoring of funds for the maintenance, road safety and rehabilitation of the National Road Network so that it is available for the passage of persons, vehicles and goods in a safe and efficient manner in order to optimize the contribution of road assets to the economic and social development of Papua New Guinea.

53.1.3 Functions of the Fund

The functions of the Fund are to:

- manage the Road Fund and oversee the optimal utilization of the Road Fund in implementation of programmes relating to the maintenance and safety of the road network;
- determine the allocation of financial resources from the Road Fund and from any other source of funding available to the Road Fund, based on a five-year road investment programme approved by the Minister and the Minister for Treasury, for the maintenance and safety of the road networks;
- review and provide advice in relation to the availability of funds for annual work plans and annual work-plans and annual budget submissions submitted by road authorities and the Road Traffic Authority;
- monitor the progress of road maintenance and safety and provide direction in this regard to road authorities; and
- measure the performance of road authorities against a set of technical and financial performance indicators and provide periodic reports to the minister responsible for finance matters.

53.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Road Fund had submitted its financial statements for the year ended 31 December 2021 and arrangements were being made to commence the audit shortly.

54. PUBLIC CURATOR OF PAPUA NEW GUINEA

54.1 INTRODUCTION

54.1.1 Legislation

The Office of the Public Curator of Papua New Guinea was established under the *Public Curator Act (Chapter 81)*.

54.1.2 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.

54.2 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 report is being finalised.

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 2015, 2016 and 2017 were in progress.

The Office had not submitted its financial statements for the years ended 31 December 2018, 2019, 2020 and 2021 for my inspection and audit.

55. ROAD TRAFFIC AUTHORITY (formerly National Road Safety Council)

55.1 INTRODUCTION

55.1.1 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.

55.1.2 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.

55.1.3 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.

55.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

55.2.1 Comments on Financial Statements

My reports to the Ministers under *Section 8(4)* of the *Audit Act* on the financial statements of the Authority for the years ended 31 December 2019 and 2020 were issued on 21 June 2022. The reports did not contain any qualification.

55.2.2 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 2019 and 2020 were issued on 21 June 2022. The reports contained similar observations, hence, only the 2020 report is reproduced.

1. CASH AT BANK – Bank Reconciliation

My review and examination of the 2020 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. As a result, the Authority had breached the provisions of the *Public Finances (Management) Act, 1995 (as amended)* and the *Financial Management Manual*. As such, I was not able to place reliance on the effectiveness of the controls surrounding the cash management of the Authority.

I recommended that the Authority must comply with the *Public Finances (Management) Act, 1995 (as amended)* and the *Finance Management Manual* to ensure that bank reconciliations were done on a monthly basis for all the bank accounts for the Authority. 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 in accordance to Financial Management Manual Part 3, section 4.7 (Bank Reconciliation). The issues surrounding the delays are being addressed to ensure timely preparation of bank reconciliation reports. The reconciliations are now being prepared within the Accounting system and are verified, checked against the bank statements, then signed by preparers and reviewers.”

2. PROPERTY PLANT & EQUIPMENT – Fixed Assets Management

The Authority did not maintain a proper Fixed Assets Register in 2020. The absence of a proper and updated Fixed Assets Register exposed the Authority to loss of properties through theft and other means which may affect the operations of the Authority. 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 the year ended 2019. To maintain proper control, RTA will conduct half yearly stocktake to verify the conditions and keep track of its fixed assets to ensure the accurate value of fixed assets is disclosed in the financials.”

3. INCOME – K9,689,846

My review of the income of the Authority revealed that despite some improvements, there were still weaknesses in the controls surrounding record keeping functions and issuance of receipt books. Fines and fees schedules and summaries of deposits were not properly arranged and filed. There were also instances where Traffic Infringement Notice (TIN) receipt books given to police officers were not returned to the Authority while in some cases some of the Authority’s Inspectors have lost their TIN books but were still issued new receipt books without the losses being properly investigated. 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 currently relies on Section 13.13 of RTA Administration and Human Resource Manual – Care of RTA Property to regulate the issuance and control of TIN and receipts Books and the related penalties for misuse of TIN and receipt books. The control guidelines exist in the RTA manuals and management will ensure that these procedures and controls are applied by Management.

While Management notes the improvement in the processes and documentation relating to revenue collection, other controls shall be implemented to avoid the possibility of loss and misuse of revenue. RTA have already started with “Cash less payments from clients” and will continue reviewing the revenue collection process.

*In relation to Traffic Infringement Notice books (TIN), only **Gazetted** RTA Traffic Enforcement Officers (TEO) are authorized to use the Traffic Infringement Notice book (TIN) and not Police Traffic Officers.”*

4. 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 and other entitlements paid or accrued during the year. I drew this observation to the Management of the Authority and the Management responded as follows;

“Management agrees to the audit findings and the related implications. Corrective measures have been taken and Corporate Services has been directed to ensure proper maintenance of staff records are done on a regular basis. Note that some of the files may have been misplaced during the transition from National Road Safety.

Further, the Authority has the Admin and HR manual (Chapter 15 Staff Records & Payroll) approved by Board in 2016 which is being used as a guide 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.”

55.3 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 2021 for my inspection and audit.

56. SECURITIES COMMISSION OF PAPUA NEW GUINEA

56.1 INTRODUCTION

56.1.1 Legislation

The Securities Commission of Papua New Guinea was established by the *Securities Commission Act 2015* and came into operation in June 2019.

56.1.2 Objectives of the Commission

The objectives of the Commission are to:

- ensure the orderly administration of the capital markets in Papua New Guinea;
- ensure the sound conduct of business in the capital markets and over-the-counter (OTC) Centres;
- elaborate policies which are directed to ensuring fairness, efficiency and transparency of securities and derivatives markets in Papua New Guinea;
- elaborate policies on money laundering and related activities in the capital market in Papua New Guinea;
- study new avenues for development in the securities and derivatives market services sector, to respond to new challenges and to take full advantage of new opportunities for achieving economic sustainability and job creation;
- ensure, in collaboration with the Bank of Papua New Guinea, the soundness and stability of the financial system in Papua New Guinea; and
- work out objectives, policies and priorities for the development of the securities and derivatives market in Papua New Guinea.

56.1.3 Functions of the Commission

The functions of the Commission are to:

- be responsible for the administration of the relevant Acts;
- license, regulate, monitor and supervise the conduct of business activities in the securities and derivatives market;
- set rules and guidelines governing the conduct of business in the securities and derivatives market, the over-the-counter (OTC) activities or money laundering and related activities in Papua New Guinea;
- issue orders, class orders or directives in relation to the conduct of business in the capital market, OTC activities or money laundering and related activities in Papua New Guinea;
- prepare and publish the Corporate Governance Code of companies registered in Papua New Guinea, both for public and exempted companies;
- ensure publicly listed companies and market intermediaries comply with the highest standard of corporate governance;
- identify and take measures to prevent and eliminate investment business abuse;

- establish norms and standards in order to preserve and maintain the good repute of Papua New Guinea in the securities and derivatives market sector;
- promote public understanding of the securities and derivatives market, including awareness of the benefits and risks associated with different kinds of investment;
- carry out investigations and take measures to suppress illegal, dishonorable and improper practices, market abuse and financial fraud in relation to any activity in the securities and derivatives markets;
- carry out research, commission studies and disseminate information in the securities and capital market;
- collect, compile, publish and disseminate statistics in respect of the securities and capital market;
- establish and maintain such links and liaison with international agencies in the field of financial services and global business as may be necessary for furtherance of its objectives;
- ensure co-ordination and co-operation between public sector agencies and private sector corporations in engaging in the development of the securities and derivatives market;
- take measures for the better protection of investors in the securities and derivatives market;
- advise the Minister generally on any matter relating to the securities and derivatives market; and
- do such acts or things as are incidental or conducive to the attainment of its objectives.

56.2 AUDIT OBSERVATIONS

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 Commission for the years ended 31 December 2019 and 2020 were issued on 29 June 2022. The reports did not contain any qualification.

56.3 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 2021 for my inspection and audit.

57. SECURITY INDUSTRIES AUTHORITY

57.1 INTRODUCTION

57.1.1 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.

57.1.2 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.

57.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the years ended 31 December 2017, 2018, 2019 and 2020 were completed and the results were being evaluated.

The Authority had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

58. SMALL AND MEDIUM ENTERPRISES CORPORATION (Formerly Small Business Development Corporation)

58.1 INTRODUCTION

58.1.1 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.

58.1.2 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.

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 Corporation for the years ended 31 December 2018 and 2019 had been completed and results were being evaluated.

The Corporation had submitted its financial statements for the years ended 31 December 2020 and 2021 and arrangements were being made to commence these audits shortly.

59. TOURISM PROMOTION AUTHORITY

59.1 INTRODUCTION

59.1.1 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.

59.1.2 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.

59.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

59.2.1 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 year ended 31 December 2019 was issued on 6 July 2021. 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, the accompanying financial statements are;

- (a) based on proper accounts and records; and
- (b) in agreement with those accounts and records and show fairly the state of affairs of the Authority for the year ended 31 December, 2019 and the results of its financial operations and cash flows for the year then ended.

BASIS FOR QUALIFIED OPINION

Government Grants and Cash at Bank -Tourism Sector Development Project

The Trust Instrument executed by the Finance Minister and published in National Gazette No G106 on 19 February 2018 had set up the Tourism Sector Development Project (TSDP) Trust Account specifically to receive, hold and expend monies towards qualifying TSDP expenditures.

The TSDP Trust account had a balance of K99,870 at year end. Also, the State in 2019 disbursed a total of K2,500,000 as Government of PNG Counterpart funding towards the Tourism Sector Development Project. The monies were remitted together with the Authority’s Development Grants into the TPA PIP Account. However, I noted that these monies were not subsequently transferred to the TSDP Trust Account but were kept in the TPA PIP Account and expended from this account. Further, instead of reporting the TSDP Grants as well as the year end cash balance of the TSDP Trust Account separately in the Tourism Sector Development Project Financial Statements in line with the financial reporting requirements of Projects, these were incorrectly treated and disclosed in the Authority’s financial statements.

As a result of the above, government grants as well as year-end cash and cash equivalent balances disclosed in the financial statements were overstated by K2,500,000 and K99,870 respectively.”

59.2.2 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 year ended 31 December 2019 was issued on 6 July 2021. The report contained the following observations:

Corporate Plan

As reported in my prior years' audits, the Authority still does not have a corporate plan in place to provide clear direction and vision on how it will achieve its short term and long-term goals and objectives; considering the requirements of stake holders. The Authority's last Corporate Plan was from 2009 to 2014. During the course of my audit, I noted that a new corporate plan was being developed (draft) but not yet finalized and approved for use. As a result, I was unable to state whether the functions of the Authority have effectively been carried out and the desired outcomes achieved. Further, the Authority has breached *section 19* of the *Tourism Promotion Authority Act, 1993* by operating without a corporate plan for over five (5) years.

I recommended the management of the Authority to seriously look into this recurring issue and find a solution to get the corporate plan finalized and approved for use to be consistent with *section 19* of the *Tourism Promotion Authority Act, 1993*. The management noted my finding and responded as follows:

“TPA’s last corporate plan expired in 2014 and since have operated without one. The final draft awaits endorsement from our new appointed Board of Directors. The former Board’s tenure expired in January 2021. This new Corporate Strategy is anticipated to be launched in the second quarter of 2021.”

Operational and Financial Procedural Manual

Section 64C of the *Public Finance (Management) (Amendment) Act, 2016* requires statutory bodies to establish, use and regularly update a Financial Management Manual to ensure uniform application of processes across all levels of management. At the time of my audit, I was provided with a copy of the revised Financial Procedures Manual. However, this document has been in draft for a while now, pending review and approval.

I brought this recurring issue to the attention of the management, stressing that the absence of a clearly documented financial procedures manual gives no clear road maps for governing the day to day financial management functions of the Authority and further creates avenues that can lead to abuse of public funds including the risk of fraud and malpractice without detection.

I recommended the Authority to revise the procedural manual as soon as practicable and have it communicated to all levels of management for adherence and use. I drew this observation to the Authority's management and the management concurred with my findings and confirmed that the draft financial management manual is pending review by the Authority and once finalized will be submitted to the Board for its endorsement. A strict deadline has been set to finalize and have it approved. The approved manual will be made available during the 2021 onsite audit.

Other Receivables

My review of the other receivables account revealed that receivables dating back to 2010 were not recovered and were outstanding for many years. I further noted that the Authority did not efficiently follow up on these debtors for recovery during the year under my review. As a result, a total of K515,484 representing ninety-four percent (94%) of total balance were still outstanding for over 180 days. The collectability of this amount is in doubt considering its lengthy ageing period.

I recommended management to investigate the receivables and to ensure there is effective follow up on all the receivables. I also advised management to consider additional provision for doubtful debts and eventually write off after Board's approval if uncollectable.

The management in its response stated that provision for doubtful debts was at 50% in 2018 for years 2010-2018. A board submission requesting write-off will be put through for Board's endorsement in its 2nd sitting once a new board is appointed this year.

Investment Property

Disclosed in the Authority's financial statement for the first time was investment property for the sum of K4,588,640. From my review of the available records beginning with management's proposal to invest right through to the conclusion of the sales and purchase agreements and subsequently the transfer of title to Tourism Promotion Authority, I was unable to establish the following:

- A copy of due diligence report by TPA management on this proposed investment;
- Legal clearance from Solicitor-General to ensure no open-ended contracts for State Institutions for this investment; and
- Why the title is still under YFIG Group Limited at the time of this audit.

I sought clarity from management on the issues highlighted above and was advised as follows:

- *“TPA management has done its due diligence by obtaining quotations and maintained dialogue with two (2) other property developers that is Edai Town and Graceville Estates after realizing that the initially intended arrangement with the National Housing Commission's Duran Farm project was not feasible;*
- *It was an oversight on TPA's part by not consulting the Solicitor General for legal clarification prior to purchase of property. The management will adhere to complying to the requirements as stated for future purchases of properties; and*
- *Much of the delay was a toss between the Department of Lands and the Internal Revenue Commission on the issues of whether or not TPA was exempted from paying stamp duties. We are now pleased to note we have the titles for Section 52, Allotment 66,85 and 86 now under PNG Tourism Promotion Authority. We now await land title transfer for Section 29, Allotment 18 for the 8 x 2-bedroom apartment.”*

Other Creditors (Local & Overseas) – K1,282,881

Similar to my 2018 audit, I noted that the Authority's obligations amounting to K946,451 still remained outstanding for many years. Bulk of these obligations relate to past transactions which were dated as back as 2005 and were not timely settled. I further observed that the Authority has no proper coordination and control over its debt management resulting in debts not been settled on time.

I brought this to the attention of the management, stressing that non-settlement of obligation portrays lack of good corporate governance on payment cycle and may negatively impact the business relationships between creditors.

I recommended the Authority to settle these long outstanding liabilities to avoid any adverse effects on the Authority.

The management concurred with my finding and responded that a total of K173,586 was settled in the subsequent year. Of these debts, a total of K783,777 is PNG's Country Membership to the United Nations World Tourism Organization (UNWTO) and was to be paid by the Department of Finance (DoF). However, since these were not settled by DoF, TPA took on the responsibility to settle this on the Country's behalf. These are arrears for years 2008-2017 which were initially taken up in 2017. TPA has been given 10 years by UNWTO to settle in full and three (3) payments valued at K182,150 has been made so far for the years 2008-2010.

Personnel Files

My review of the maintenance of staff personnel files for selected officers of the Authority revealed that records such as staff salary and leave history ledgers/cards although maintained were not properly updated with important particulars such as adjustments made to salaries and allowances. Similarly, leave records for employees such as recreational, sick, compassionate and long service leave were not updated.

I reminded the management that inadequate record keeping of the staff salary records exposes the Authority to the risk of paying incorrect employee benefits and recommended management to ensure that staff salary and leave history ledgers/cards are properly maintained with all required information and updated on a regular basis.

Management concurred with my recommendations and agreed to take corrective actions.

Leave Fares-Non-compliance to General Orders 14.47 and 14.41

My review of leave fares paid out in 2019 revealed that the Authority did not comply with *General Order 14.47* that 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*”. Officers going on leave with leave fares were not paying the ten percent (10%) fee or contribution for airfares. In addition, I noted an instance where the Authority authorized and paid for return costs for dependents of a staff who were already over the age of 19, consequently breaching *General Order 14.41*.

I brought this issue to the attention of the management and reminded management to adhere to *General Orders 14.47* and *14.41* respectively in the administration and application of leave fares.

Management took note of my recommendation and advised that the aforementioned General Orders will be implemented and complied with going forward.

Travel Acquittal and Travel Advances Register

My review of the travel related expenditures revealed that the Authority maintained a Travel Acquittal Register for the year under review. However, the register was incomplete and lacked the following details:

- Date when the responsible officer returns from the trip;
- Date when the responsible officer acquits; and
- Year-end final balances showing how much were acquitted and how much was still outstanding.

I also noted on numerous occasions where officers who did not acquit their previous travel related expenses were still allowed to take additional travels. In addition, although a travel acquittal file was maintained it was not properly filed, hence; I was not able to establish a proper audit trail as it was quite difficult to trace the amounts captured in the acquittals register to their corresponding acquittals in the acquittal file. My review also revealed that travel and accommodation expenses amounting to K555,297 remained unacquitted in 2019.

As a result, I was unable to ascertain whether all travel expenses incurred and paid during the year were properly and accurately recorded and timely acquitted in accordance with the requirements of *Financial Management Manual Part 20 paragraphs 11.2* and *12.10*.

I drew observations to the Authority’s management’s attention and the Authority’s management acknowledged my findings and agreed to adhere to my recommendations.

No Acquittals for Funded/Sponsored Projects

I was not able to reliably substantiate grants totalling K976,945 allocated to fund tourism projects as well as sponsoring tourism related events as I did not sight any acquittals including the Project/Activity Completion Reports during my review.

I brought my findings to the attention of the management and the Authority's management concurred with my findings and responded as follows:

"We confirm no acquittals were submitted by those enlisted. TPA is currently drafting procedure guidelines that will allow TPA and the grant recipients to comply with when funds are allocated to support tourism businesses. We will ensure follow ups are done going forward."

Procurement Process Overview

My review of the procurement process of the expenditure accounts and records of the Authority in 2019 revealed the following discrepancies:

- Payments totalling K62,938 were made without obtaining three (3) quotations from three (3) different suppliers as required by the *Finance Instruction 2/2013*;
- A payment worth K28,000 with the Cheque # 3466 was paid to a consultant on behalf of the Minister's Office for services rendered to the Minister's Office. However, I was not able to comment on the appropriateness of this payment as in my view, the Minister's Office gets funding annually from the government to fund its operations. Monies that have been earmarked to be used to achieve some of the activity plans for the Authority have now been diverted to fund ministers' expenses. In addition, I was not able to confirm if the above payment is made to a registered consultant who has complied with necessary statutory requirements as I observed that the payment was made to a person's account and not a business name account; which in my view is deemed inappropriate;
- I noted on one occasion a payment of K31,100 bearing the cheque number 17638 was made for purchases of Mobile Phones for TPA Board Members. However, in the absence of an approved Mobile Phone Policy, I was not able to verify which officers of the Authority were eligible to be given mobile phones for use including the controls surrounding the purchase and usage of mobile phones and further comment on whether the Board Members would qualify to be given such privileges. The Authority may also be spending on unbudgeted and extravagant expenditures; and
- I noted an instance where a payment of K8,940 bearing the cheque number 3058 paid for hire car services charged extra days to TPA compared to the flight itinerary details provided. We further noted that three (3) quotations were not sought for this procurement;

I drew management's attention to these discrepancies and the management concurred with my observations and recommendations and advised as follows:

- *“We admit we failed to provide three (3) quotations from three (3) from three different suppliers for payments totalling K62,938. There are instances where due to major events happening around the same time, most vehicles got hired out leaving us with no options to source elsewhere except that which is available;*
- *Cheque number 3466 of K28,000 was a ministerial expense paid upon formal request from the Office of the Minister for a consultant engaged by the Minister’s office to deliver various tourism related projects in Kokopo in 2019;*
- *We admit to the fact that there is no approved mobile phone policy to govern purchase and use of mobile phones. A governance policy handbook solely for the Board may be developed to govern such matters; and*
- *We admit we failed to provide three (3) quotes for the payment bearing the cheque number 3058 for hire car. It is also to be noted that there are instances where due to major events happening around the same time, most vehicles got hired leaving out no option to source elsewhere except that which is available. We also confirm that an extra charge was an oversight on our part. We will make sure such mistakes will not happen going forward.”*

59.3 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 2020 had been completed and the audit report is expected to be issued shortly.

The Authority had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

60. UNIVERSITY OF GOROKA

60.1 INTRODUCTION

60.1.1 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.

60.1.2 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.

60.1.3 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.

60.1.4 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 60A and 60B of this Report respectively.

60.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the University had not submitted its financial statements for the years ended 31 December 2018, 2019, 2020 and 2021 for my inspection and audit despite numerous reminders.

60A. UNIGOR CONSULTANCY LIMITED **(Subsidiary of the University of Goroka)**

60A.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*.

60A.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.

60A.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
- cafeteria services.

60A.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 2016, 2017, 2018, 2019, 2020 and 2021 for my inspection and audit despite numerous reminders from my Office.

60B. UNIGOR HUMI CATERING LIMITED

60B.1 INTRODUCTION

60B.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.

60B.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.

60B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

60B.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 2011, 2012 and 2013 were issued on 10 February 2022, while the reports for the years ended 31 December 2014 and 2015 were issued on 2 and 6 April 2022 respectively. These reports contained similar Disclaimer of Opinions, hence, only the 2015 report is reproduced.

“DISCLAIMER OF OPINION

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

BASIS FOR DISCLAIMER OF OPINION

Lack of Accounting Records

My examination on the accounts and records of the Unigor Humi Catering Limited revealed that the Company did not maintain proper accounting records of its transactions and accounts during the 2015 financial year. As such, I was unable to perform the required audit procedures to ascertain the completeness, accuracy, rights and obligations, valuation and existence of the following account balances disclosed in the financial statements:

| | |
|-------------------------------|--------------|
| Property, Plant and Equipment | – K88,336 |
| Cash & Cash Equivalents | – K487,187 |
| Receivables | – K929,835 |
| Provisions for Income Tax | – K435,129 |
| Unsecured Loan | – K525,485 |
| Accruals and Payables | – K422,300 |
| Revenue | – K3,634,529 |
| Operating Expenses | – K3,820,816 |

Accounting for Income Tax Provisions

I observed that the Provisions for Income Tax totaling K435,129 lacked appropriate supporting documents and information available to confirm whether income tax provisions were properly measured and accounted for 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.

Unsecured Loan – K525,485

The unsecured loan of K525,484 relates to loan payable to Unigor Consultancy Limited after expenses were incurred on behalf of the Company during its inception. However, I was not provided with sufficient supporting documentation and details of this loan to confirm this business transaction and further perform audit procedures to ascertain the completeness, accuracy, valuation and rights and obligations of the balance disclosed in the financial statements as at 31 December 2015.

Inventory

I observed that the Company did not maintain an effective inventory management system to account for stock and accurately disclose the cost of sales in accordance with the *International Accounting Standards 2 - Inventories*. Accordingly, a total of K2,809,999 related to stock purchases for students' meals were not properly accounted and disclosed in the financial statements. As such, I was not able to comment on the inventory and further extend the audit procedures to confirm the completeness, accuracy and valuation of the inventory account balance disclosed as zero (K0) at 31 December 2015.

Payments Lacking Supporting Documents

My review of the Company's payment process revealed weaknesses in procuring goods and services from suppliers. It was observed that payment vouchers totaling K407,665 were not substantiated with invoices, delivery dockets and receipts for audit verification of goods and services received by the Company during the year under review. As such, I was not able to verify and authenticate the payments for goods and services procured and place reliance on the controls surrounding the procurement process.

Scope Limitation – Missing Payment Vouchers and Supporting Documents

Section 188 of the *Companies Act 1997* require companies to keep proper accounts and records of their transactions and affairs. However, my review of Unigor Humi Catering Ltd accounts and records revealed the following:

- payments totaling K961,647 from operating expenses were missing from files; and
- sales invoices totaling K3,541,428 were not provided with the supporting documents for verification. Several invoices were not supported with the man-days and daily mess reports."

60B.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 2011, 2012 and 2013 were issued on 10 February 2022, while the reports for the years ended 31 December 2014 and 2015 were issued on 2 and 6 April 2022 respectively. The reports contained similar observations, hence, only the 2015 report is reproduced.

Lack of Proper Maintenance of Accounting Records

Pursuant to *Section 188* of the *Companies Act 1997*, Unigor Humi Catering Limited is obliged to keep proper accounts and records of its transactions and affairs. However, my review of the Company's accounts and records revealed that source documents and relevant records were not properly maintained during the year under review. Consequently, I was not able to perform the necessary audit procedures to determine the authenticity of balances of Fixed Assets, Trade Debtors, Inventory, Provision for Income Tax, Unsecured Loan, Payables and Share Capital Reserves disclosed in the financial statements. This has placed a limitation on the scope of my audit and accordingly, the Company also breached the provision of the *Companies Act 1997* mentioned above.

Bank Reconciliations

My review on the cash and cash equivalents revealed that the bank reconciliations of the Company were not prepared on a monthly basis and that the bank reconciliations were not checked and reviewed by competent personnel to ensure correct and accurate reconciled bank balances were maintained. The lack of monthly preparation and regular independent review on the bank reconciliations by competent officers may result in errors, variances, misstatements and fraudulent application of public monies to go undetected and reported on a timely manner.

Non-Compliance with Statutory Requirements

I noted the following statutory requirements that the Company did not comply with:

- **Preparation of Financial Statements**

Section 179 of the *Companies Act 1997* requires the Unigor Humi Catering Limited Board of Directors to ensure that the financial statements or accounts are prepared within five (5) months after the balance date. However, the Company Board has not prepared the Company's financial statements for the year ended 31 December 2015 on a timely basis. The Board prepared the 2015 year-end financial statements only in August 2019. Accordingly, the Board breached the above provision of the *Companies Act*.

- **Annual Company Returns**

Pursuant to *Section 215* of the *Companies Act 1997*, the Board of a company shall ensure that annual company return is submitted to the Registrar of Companies for registration at least once in each calendar year within 14 days after the annual meeting of the Company. The annual return shall be made up to the date of the annual meeting of the Company, or to a date not later than 14 days after the date of the annual meeting. Where the Board of a Company fails to comply with the above requirements, every Director of the Company commits an offence. Despite the requirements of the *Companies Act*, the Unigor Humi Catering Limited Board had failed to remit annual returns to the Registrar of Companies on time.

- **Group Tax Remittance**

Unigor Humi Catering Limited did not remit the 2015 group tax to Internal Revenue Commission (IRC) on time. It is a requirement under *Section 299G* of the *Income Tax Act, 1959* that a group employer is required to remit salary and wages tax to IRC within 7 days after month-end. It also states that failure to remit salary and wages tax will result in penalty of 20% for outstanding tax payable and an additional interest of 20% per annum on the amount that remains unpaid.

- **Company Income Tax Remittance**

The Unigor Humi Catering Limited did not remit its company income tax returns to IRC on a timely basis. Thus, the returns for year ended 31 December 2015 and prior year were still outstanding. It is a requirement under the *Income Tax Act, 1959* that company tax returns must be lodged to IRC on or by 28 February after the end of the financial year.

- **Goods & Services Tax (GST) Remittance**

The Unigor Humi Catering Limited did not remit 2015 GST returns to IRC on a timely basis as required under *Section 63-66* of the *Goods and Services Tax Act, 2003 (GST Act)* to remit monthly GST Returns to IRC by 21st day after month-end. Failure to remit GST Returns on time will result in penalties of additional tax payable at the rate of 10% on the amount owing, and 20% calculated on an annual basis under *Section 85(1)* of the *GST Act, 2003*.

Board Meeting Minutes

The Board meeting minutes for the year under review were not maintained and provided for my review and comment. As such, I was unable to perform my audit procedures to ascertain whether there were proper proceedings held and that all major transactions and decisions reached were adequately deliberated and in the best interest of the Company.

Accounting Information System

My review on the internal control environment of the Company revealed the following weaknesses during the year under review:

- The Company did not have an approved accounting policy manual to guide staff on statutory requirements, application of relevant accounting standards and preparation of the accounts;
- The Company's financial transaction records in the accounting system were not properly kept. Management information was insufficient and timely reconciliations were not performed for items included in the Statement of Financial Position and/or reconciliations between the general ledger and sub-ledgers; and

- Serially-numbered journal entries passed and updated in the general ledger from the peach-tree accounting system were not maintained in files for audit verification.

A weak internal control environment implies a lack of accountability and governance. Moreover, improper migration between accounting information systems increases the risk of material misstatements related to error in financial reporting. The management noted my observation and responded as follows;

“We cannot confirm if the former management had a proper accounting policy in place as this finding relates to the 2015 financial year. Under the current management and board, we currently implementing a Financial Management Policy and Procedures manual which was approved by the board in 2017.”

Fixed Assets Register

My review of the Company’s assets revealed that the fixed assets were not supported with appropriate accounting records and that there was no proper Fixed Assets Register kept and maintained by the Company during the year under review. Furthermore, there were no periodic stock-take carried out on fixed assets during the year to ascertain the existence and condition of assets owned and controlled by the Company. Consequently, I was unable to perform my audit procedures to verify the completeness, existence, accuracy and valuation of the fixed assets balance totaling K88,336 as at 31 December 2015. I brought this to the attention of the management and they responded as follows;

“Under the current management, we have ensured that all source documents relating to asset purchases are filed and a proper Fixed Assets Register is kept.”

Personnel Files

My examination on the personnel records revealed that the Company did not properly maintain staff personnel files. Employment contracts and appointment letters along with other personnel data such as details of salary history, promotion and increments including salaries/wages declaration forms were not available for audit inspection and verification. I was not able to validate whether salaries and wages paid to employees were based on proper employment contracts and appointment letters. Similarly, I could not confirm whether the dependents claimed for tax rebates were authentic.

Payroll System

My review of the payroll system revealed the following weaknesses:

- The Company’s staffs’ remunerations were not processed in a recognised payroll accounting system but were calculated and processed manually on excel spreadsheets;
- The Company had not been remitting superannuation contributions on behalf of the casuals and some permanent officers, in compliance with the *Superannuation Act, 2000* and *General Order 17* on a timely basis; and

- The payroll calculations and the net payroll including time-sheets were not properly maintained for audit verification and confirmation of segregation of duties in the payroll/HR function.

I was unable to place reliance on the effectiveness of the controls over the payroll system. Such weak control environment is imminent for fraud, abuse and misuse of public funds.

60B.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, 2019, 2020 and 2021 for my inspection and audit despite numerous reminders.

61. UNIVERSITY OF NATURAL RESOURCES AND ENVIRONMENT

61.1 INTRODUCTION

61.1.1 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 functions were transferred to the University of Vudal only on 1 January 1998.

61.1.2 Objectives of the University

The objectives of the University are: 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.

61.1.3 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.

61.2 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 results were being evaluated.

The University had not submitted its financial statements for the years ended 31 December 2016, 2017, 2018, 2019, 2020 and 2021 for my inspection and audit despite numerous reminders from my Office.

62. UNIVERSITY OF PAPUA NEW GUINEA

62.1 INTRODUCTION

62.1.1 Legislation

The University of Papua New Guinea was established under the *University of Papua New Guinea Act (Chapter 169)*.

62.1.2 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.

62.1.3 Subsidiaries of the University

The University has two subsidiaries namely, *Unisave Limited* and *Univentures Limited* which were incorporated under the *Companies Act*. Comments in relation to the subsidiaries are contained in paragraphs 62A and 62B of this Report.

62.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

62.2.1 Comments on Financial Statements

My report to the Ministers under *Section 8(4)* of the *Audit Act* on the University's financial statements for the year ended 31 December 2015 was issued on 21 February 2022. The report contained a Disclaimer of Opinion.

“DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs below, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I am unable to and do not express an opinion on the financial statements of the University of Papua New Guinea for the year ended 31 December 2015.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances

In 2009, the University of Papua New Guinea changed its accounting policy from accrual to cash basis of accounting in the preparation and presentation of the financial statements. The comparatives prepared under accrual basis had been converted as balances reflected under cash basis. Considering this and due to errors and material limitations of scope highlighted in my prior years’ audits, I could not confirm the completeness and accuracy of opening balances disclosed at 1 January 2015.

Similarly, I could not perform tests to verify the completeness and accuracy of the closing balances of assets and liabilities disclosed in the notes to the financial statements.

Lack of Audit Trail

The financial statements were prepared on accrual accounting data from Attaché and subsequent adjustments for movement of current asset/liabilities. However, I was not provided with complete details of adjustments made to accrual amounts to arrive at final figures represented in the financial statements. In addition, for all accounts maintained, there were no detailed general ledger transactions and/or schedules detailing actual cash payments made in the year to serve as an audit trail as well as to assist with performing audit procedures. This hindered the audit process and audit verification became onerous. Consequently, audit examination was restricted to randomly selected payments further limiting the scope of my audit.

Considering the above, I cannot confirm and/or verify the accuracy and completeness of the receipts and payments balances reported in the financial statements for year ended 31 December 2015.

Cash at Bank

My review noted material discrepancies on the bank reconciliations provided for audit.

The balance of General Fund account as per bank reconciliation reflected the cash balance as an overdrawn balance of K16,642,729 compared to the amount of K1,424,244 reflected in the financial statements. I was not provided an explanation for the variance of K18,066,972. Further, I was also unable to establish the basis on which the balance (K1,371,294) of salaries and wages account was reflected as zero/nil in the financial statements. Adding to the above, numerous errors were also noted in other bank account balances as well.

As the financial statements reflected largely the Cash Receipts and Payments for the year, and because of the errors and discrepancies noted, I was unable to confirm the accuracy and completeness of the cash balance at year end.

Special Purpose Accounts (SPA) and Trust Account

In 2015, about K11 million was expended through Special Purpose Accounts (SPAs) and Trust Accounts as captured in *Note 12* to the financial statements. Detailed transactions and supporting documents were not provided for my verification. Due to such scope of limitation on my work, I was unable to verify the accuracy and correctness of the Special Purpose Account balance nor confirm the authenticity and propriety of payments made out from these accounts.

Personnel Emoluments – K48.6 Million

A total of K48,653,440 had been recorded as personnel emoluments representing salary, allowances, overtime, leave fares, gratuity, international market allowances, domestic market allowances and repatriation expenses paid to staff of the University in 2015.

However, supporting documentation such as salary cost sheets, employment contracts, personnel files, payrolls, payroll registers, evidence of computation schedules, timesheets, detailed SCMC approvals and associated payment vouchers were not provided for my review.

As a result of the above, I was unable to comment on the validity, completeness and accuracy of the amount of K48,653,440 recorded as Personnel Emoluments.

Fixed Assets - K110.6 Million

As highlighted in the past, I did not sight a complete/centralized Fixed Asset Register (FAR) to reflect the University's fixed assets carrying cost of K110,644,937. There were also no asset registers maintained by individual schools and departments, as required under *Section 18.1* of University's Finance Policy and Accounting Procedures Manual (FPAPM). In the absence of such register(s) and the lack of physical stock take/inspection, I could not confirm the existence, ownership and/or condition of the University's fixed assets as at year-end. Further, I am unable to verify and conclude on the disposals/additions including capital work in progress at the end of the year."

62.2.2 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 University for the year ended 31 December 2015 was issued on 21 February 2022. The report contained the following significant matters:

Financial Statements

During my review, it has come to my attention that the University:

- a) Has not been preparing and submitting financial statements on a timely basis to the appropriate authorities such as the Department of Finance and to my Office. Considering the delays and/or inaccuracies observed on the financials, I am concerned on the quality of financial reports submitted at the Council meeting(s) and potential decision(s) made on incorrect, unreliable and/or outdated financial data/information;
- b) Has breached *Sections 63(1)* and *63(3)* of *Public Finances (Management) Act 1995 (as amended)* where it requires all Public Bodies to submit financial statements for audit; and
- c) Supporting documentations relating to the audit file and support or responsiveness towards audit was very much lacking.

Public Investment Projects (PIP)

Payments totaling K6.2 million had been paid to a contractor in respect of claims for stage three (3) of Law Building construction. I was not furnished with a copy of the contract relating to that stage three (3) engagement. In the absence of a valid contract, I was not able to confirm whether the contract was properly awarded and payments made were correctly executed based on work performed. I further could not confirm the correctness of claims paid to the contractor in 2015.

Tuition Fees

As reported in my prior years' audits, the University still did not maintain and/or provide an up-to-date reconciled student fees receipt/debtor's ledger and details of student fees received in 2015. There was no proper reconciliation of external student fees collected against students registered in the Distance Education Mode, either at the Head Office or in the respective Open Campuses and Centers. Due to such instances, I am unable to place any reliance nor conclude on whether proper controls surrounding students registration, collection of fees or record keeping were maintained by the University during the year.

Open College Campus

During my review, I noted that based on memorandum of understanding (MOU) with respective Provincial Governments, Open Campus/Centers in each province were to be provided with an annual grant/subsidy to meet the operational costs and others. However, no records of such monies or funding made to the Centers were kept and provided for audit.

Operational Expenses – K18.7 Million

Operational expenses for the year amounted to K18,743,046 as disclosed in the financial statements. Included in this amount is the catering service expenses provided by IPI Mountain Catering for both the main campus and medical faculty. My attempts to review and verify payments amounting to about K8.5 million against the contract was unsuccessful as the contract document was not made available. As a result, I was not able to confirm the correctness, validity and accuracy of the daily meal rates applied and the total amounts charged. In addition, I cannot confirm whether there was a valid and existing contract in place between the University and the Catering company and whether compliance to procurement processes were applied.

Statutory Deductions

During my review, I noted that salary and wages taxes of about K59 million and Superannuation deductions of K0.7 million relating to the 2015 financial year remained outstanding at the time of my audit. The University has not complied with the *Income Tax Act 1959 (as amended)* and the *Superannuation Act 2000* potentially exposing itself for penalty fines by the respective agencies.

Associated Companies

I was not provided with any audited financial statements of University's subsidiary companies namely the Univenture Limited and Unisave Limited. As a result, 2015 financial results of its associated companies were not disclosed in the notes to the University's financial statements.

Further, an investment of K1 million in Univenture Limited was made as per *Note 14* to the financial statements but no supporting documents were provided for me to confirm this amount.

I therefore, was unable to comment on whether the above two (2) subsidiary companies were at the time to current were viable investments.

Travel Expenses

Travel and associated payments were not supported by evidence of travel, original invoice, receipts and/or evidence of obtaining three (3) written quotes. In the absence of these, audit could not confirm if all travel was undertaken and value for money was obtained. The same issue has been raised during my past audits as well.

Insurance

As highlighted in prior years, University's fixed assets were not adequately insured against fire or other natural disasters. Therefore, I was not able to confirm whether the University has in place business continuity or recovery plan to revive assets in such a loss.

National Home Ownership Scheme (NHOS)

The University had implemented a NHOS in 2002. Due to non-recognition of staff contributions in the financial statements, I was unable to ascertain the correctness and/or existence of NHOS balance, if any. I was also unable to confirm if the University complied with *Section 39D of University of Papua New Guinea Act, 1983*, "where the University must, at least once in each fiscal year, furnish to the Minister, for presentation to the National Executive Council, a report on any HOS devised and operated by the University."

62.3 STATUS OF FINANCIAL STATEMENTS

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 cooperation 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, 2019, 2020 and 2021 for my inspection and audit.

62A. UNISAVE LIMITED **(A subsidiary of University of Papua New Guinea)**

62A.1 INTRODUCTION

62A.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 SITCo PNG Limited resulting in Univentures Limited owning 51% of the Shares and SITCo PNG owning 49%.

62A.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 SITCo PNG Limited.

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.

62A.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, 2019, 2020 and 2021 had not been submitted for my inspection and audit despite numerous reminders from my Office.

62B. UNIVENTURES LIMITED **(A subsidiary of University of Papua New Guinea)**

62B.1 INTRODUCTION

62B.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.

62B.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.

62B.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, 2019, 2020 and 2021 for my inspection and audit despite numerous reminders from my Office.

63. WESTERN PACIFIC UNIVERSITY

63.1 INTRODUCTION

63.1.1 Legislation

The Western Pacific University was established under the *Western Pacific University Act 2014*. The Act was certified on 8 November 2014 following *NEC Decision No. 299/2013* for the establishment of a new University in the Ialibu Pangia District of the Southern Highlands Province.

63.1.2 Functions of the University

The principal functions of the University are to:

- provide for education and scholarship in such branches of knowledge as it may deem fit, and to make provision for research, service to society and for the application, advancement and dissemination of knowledge in such manner as it may determine;
- prescribe programs of studies to be conducted by it and the colleges;
- hold examinations and to award and confer degrees, diplomas, certificates and other academic distinctions to and on persons who have been admitted to and have passed its examinations under prescribe conditions;
- prescribe the terms and conditions of employment of the officers, teachers and other employees of the University and to lay down terms and conditions that may be different from those applicable to government servants in general;
- engage, where necessary, persons on contracts of specified duration and to specify the terms of each engagement;
- confer honorary degrees or other distinctions on approved persons in the manner prescribed;
- provide for such instructions for persons not being students of the University as it may prescribe, and to grant certificates and diplomas to such persons;
- institute programs for the exchange of students and teachers between the University and other universities, educational institutions and research organisations, inside as well as outside Papua New Guinea;
- provide career counselling and job search services to students and alumni;
- maintain linkages with alumni;
- develop and implement fund-raising plans;
- provide and support the academic development of a faculty of the University;
- confer degrees on persons who have carried on independent research under prescribed conditions;
- affiliate and disaffiliate educational institutions under prescribed conditions;

- inspect colleges and other educational institutions affiliated or seeking affiliation with the University;
- accept the examinations passed and the period of study spent by students of the University at other universities and places of learning equivalent to such examinations and periods of study in the University, as it may prescribe, and to withdraw such acceptance;
- co-operate with other Universities, public authorities or private organisations, inside as well as outside Papua New Guinea, in such manner and for such purposes as it may prescribe;
- institute Professorships, Associate Professorships, Assistant Professorships and Lectureships and any other posts and to appoint persons thereto;
- create posts for research, extension, administration and other related purposes and to appoint persons thereto;
- recognise selected members of the teaching staff of affiliated colleges or educational institutions admitted to the privileges of the University or such other persons it may deem fit, as University teachers;
- institute and award financial assistance to students in need, fellowships, scholarships, bursaries, medals and prizes under the prescribed conditions;
- establish teaching departments, schools, colleges, faculties, institutes, museums and other centers of learning for the development of teaching and research and to make such arrangements for their maintenance, management and administration as it may prescribe;
- provide for the residence of the students of the University and the colleges, to institute and maintain halls of residence and to approve or license hostels and lodging;
- maintain order, discipline and security on the campuses of the University and the colleges;
- promote the extra-curricular and recreational activities of such students, and to make arrangements for promoting their health and general welfare;
- demand and receive such fees and other charges as it may determine;
- make provisions for research, advisory or consultancy services and with these objects to enter into arrangements with other institutions, public or private bodies, commercial and industrial enterprises under prescribed conditions;
- enter into, carry out, vary or cancel contracts; and
- receive and manage property transferred and grants, contributions made to the University and to invest any fund representing such property, grants, bequests, trust, gifts, donations, endowments or contributions in such manner as it may deem fit;
- provide for the printing and publication of research and other works; and
- do all such other acts and things, whether incidental to the powers under the *Western Pacific University Act* as may be required or expedient in order to further the objectives of the University as a place of education, learning and research.

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 University for the years ended 31 December 2015, 2016, 2017 and 2018 were completed and results were being evaluated.

The University had not submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 for my inspection and audit.

SECTION B

**NATIONAL GOVERNMENT
OWNED COMPANIES**

64. 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 **65** to **80**.

65. AIR NIUGINI LIMITED

65.1 INTRODUCTION

65.1.1 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.

65.1.2 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.

65.1.3 Subsidiaries of the Company

The Company has four (4) subsidiary companies. Comments in relation to the subsidiary companies are contained in paragraphs 65A, 65B, 65C and 65D of this Report.

65.2 AUDIT OBSERVATIONS

65.2.1 Comments on Financial Statements

My reports to the Ministers in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the years ended 31 December 2016, 2017 and 2018 were issued on 30 August 2021, and my reports for the years ended 31 December 2019 and 2020 were issued on 15 June 2022. The reports contained similar Disclaimer of Opinions, hence, only the 2020 report is reproduced.

“DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs below, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of Air Niugini Limited for the year ended 31 December 2020.

BASIS FOR DISCLAIMER OF OPINION

Going Concern Basis of Accounting

Note 2B(ii) to the consolidated financial statements for the year ended 31 December 2020 made disclosure relating to “*Going Concern*” that the Group and the Company had incurred a net loss of K303.0 million and K249.6 million respectively (Net loss 2019: Group K73.8 million; and Company K36.9 million) and at that date, current liabilities of the Group and the Company exceeded their current assets by K650.8 million and K525.4 million respectively. The Covid-19 outbreak and the subsequent travel restrictions imposed by countries worldwide and measures put in place by the PNG Government in 2020 and 2021 have caused a significant disruption to normal operations of the Group and the Company, resulting in a future deterioration in financial position.

As set out in *Note 2B(ii)*, the Group is critically dependent upon achieving a number of assumptions to continue as a going concern. However, at this time of my report, many of these assumptions have not been sufficiently secured for the counterparties to commit course of action the Group proposes or sufficient appropriate evidence has not been available for performing my procedures. The status of these assumptions observed at the time of this report have placed material and pervasive negative impacts on my ability to gather sufficient audit evidence and form a conclusion, in particular, to test and examine the existence of plans the Group has put in place, the existence of other mitigating factors, the feasibility of these plans, and whether the outcome of these plans will materialize as and when needed to support going concern of the Group and the Company. Further reasons for my inability to gather sufficient appropriate evidence to determine the appropriateness of preparing the financial statements on a going concern basis are detailed in the succeeding qualification paragraphs.

Going Concern – Significant Working Capital Deficiency, Overdue Creditors and Overdue Loan Facilities

Note 2B(ii) to the consolidated financial statements disclosed that subsequent to period end, the working capital positions of the Group and the Company have further deteriorated. At year end, there have been significant overdue creditors and other current liabilities which contributed to the Group's working capital deficiency of K650.8 million and the Company's working capital deficiency of K525.4 million, and worsening subsequent to year end.

Binding written agreements entered into with the respective creditors through renegotiation and restructure of payment terms for settling the trade creditors and other liability balances including overdue loan facilities were not provided for my procedures to assess the settlement of historic and subsequent debts incurred. As a result, I was unable to gather sufficient appropriate evidence to confirm or dispel whether all loan covenant compliance requirements have been met subsequent to period end, and to determine the ability of the Group and the Company to pay the creditors as and when they fall due for settlement.

Accordingly, I could not determine the magnitude of implications the unsupported and overdue trade creditors, loan facilities and other liabilities could have on the liquidity of the Group and the Company, nor was I able to comment on the appropriateness of preparing the financial statements on a going concern basis.

Going Concern – Additional Shareholder Loan and PNG Government Funding

Note 2B(ii) to the consolidated financial statements disclosed the continuing negotiations with Kumul Consolidated Holdings (KCH) and the PNG Government to secure approximately K160 million of additional funding, partly to repay overdue trade payables and balance to raise as additional working capital. Of the total additional funding to raise, K50 million was received from KCH in 2021 and the balance of K110 million (or USD30 million) (*the ADB Loan*) which is expected to be allocated to the Group by KCH has not been received. I have not seen any evidence of a formalized agreement with terms and conditions for the ADB Loan.

Accordingly, I was unable to gather sufficient appropriate evidence to confirm that securing of the loan from ADB is certain and realizable in a timely manner to pay off the overdue creditors and raise needed working capital to create liquidity, nor was I able to comment whether preparing the financial statements on a going concern basis has been appropriate.

Going Concern – Flight Revenue, Cashflow Forecast and Financial Position Assumptions

As disclosed in *Note 2B(ii)*, the Group and the Company have been in the process of implementing a recovery plan, which depends on sustaining a level of flight revenue and effective cost management. Therefore, management had prepared a cash-flow forecast covering a 12 months period from the date of these consolidated financial statements. However, I was not provided with detailed supporting documents and plausible evidences for a number of assumptions including implications of the recent Covid-19 related restrictions and developments, and projections included in the cashflow forecast for my review.

Hence, I was unable to obtain sufficient appropriate audit evidence supporting the cash-flow projection of the Group for the twelve (12) months period, and the effects of the Covid-19 pandemic on the going concern of the Group and the Company.

I considered that the implications of the cash-flow projections prepared without proper support, the impact of the Covid-19 pandemic, combined with the current financial position and the historic performance of the Group and the Company casts a significant doubt on the ability of the Group and the Company to achieve their recovery plan, and preparing the financial statements on a going concern basis.

Going Concern – Divestment of Non-core Assets

As disclosed in *Note 2B(ii)*, the Group's 2022 cashflow projections include cash inflows from sale of non-core assets owned by the Group. However, evidence of an active sales programme that supports the Group's ability to sell those assets at the amount assumed was not made available for my review. In the absence of sufficient appropriate information as to the plausibility and timing of the divestment plans, I was unable to determine the implications of this on the going concern of the Group and the Company, and whether preparing the financial statements on a going concern basis has been appropriate.

I was unable to satisfy myself by alternative means on all of the above qualifications. In aggregate, I was unable to obtain sufficient appropriate audit evidence to ensure the appropriateness of preparing the financial statements on a going concern basis. Given the working capital deficiency at period end and significant deterioration of the financial position subsequent to the period end, and without obtaining sufficient appropriate audit evidence on the negotiation for securing additional loan from ADB, together with other factors mentioned in the respective qualifications above, I was unable to decide whether the Group and the Company are capable of extinguishing their obligations as and when they fall due for settlement.

As a result of all these matters, I was unable to form an opinion as to whether the going concern basis of preparing the financial statements has been appropriate. I was also unable to determine whether adjustments might have been necessary to ensure completeness and accuracy of the recorded values of assets and liabilities reported in the consolidated financial statements. Given the material and pervasive impacts of these limitations to the financial statements as a whole, I am therefore unable to form an opinion on the consolidated financial statements of the Group and the Company for the year ended 31 December 2020.

Opening Balances and Corresponding Amounts

My report issued on the consolidated financial statements for the year ended 31 December 2019 was a *Disclaimer of Opinion* due to issues regarding *Going Concern* of the Group and the Company, and Valuation of Rotables and Engines at K18.6 million (2019: K15.3 million); Componentization of Assets - Useful Life of Aircraft at K80.3 million (2019: K107.4 million); Valuation and Ownership of Land and Buildings at K414.1 million (2019: K427.4 million); Trade Debtors and Other Receivables at K58.4 million and K133.5 million respectively (2019: K90.1 million and K141.9 million); Provision for doubtful debt and implementation of *IFRS 9* at K19.0 million (2019: K23.8 million); Provision for income tax, deferred tax balances, Goods and Services tax and other tax liabilities; *IFRS 16* – Completeness of the leases and reasonableness and accuracy of the key assumptions and inputs; Trade Creditors and Accruals at K590.1 million and K482.1 million respectively (2019: K436.2 million and K380.3 million); Loyalty program contract liability of K25.0 million liability (2019: K23.2 million); Amalgamation of subsidiaries and related party transactions and balances; Movements in aircrafts, property, plant and equipment, and assets held for sale, and capital work in progress; and Management override of controls.

For the year ended 31 December 2020, I was unable to perform alternative procedures over these opening balances to ensure their accuracy and completeness.

Since these opening balances enter into the determination of the results of operations, equity movements and cash flows of the Group and the Company for the year ended 31 December 2020, any adjustments found necessary on the opening balances would have consequential effects on the financial performance, equity movements and cash flows for the year ended 31 December 2020. I was unable to determine what adjustments might have been necessary to the financial figures for the year ended 31 December 2020, and for the corresponding period. Further details of my uncertainty over accuracy and completeness of the opening balances and their implications on the Group's consolidated financial statements for the current year are reported in the succeeding qualification paragraphs.

Valuation of Rotables and Engines

Note 13 to the consolidated financial statements disclosed that the Group and the Company had rotables of K13.2 million and engines of K5.3 million at 31 December 2020. The Group and the Company have an accounting policy to revalue its rotables and engines after every three years. The last external valuation performed by an external valuer was in 2010. The Group and the Company did not perform valuations of these assets as at 31 December 2020, instead, the Directors concluded that the book value of these assets were the appropriate measure at 31 December 2020. In the absence of a current external valuation or Directors' valuation detailing the fair valuation of rotables and engines at the year end, I was unable to obtain sufficient appropriate audit evidence over the valuation of the rotables and engines at 31 December 2020.

Accordingly, I was unable to determine what adjustments might have been necessary to the statement of financial position at 31 December 2020 and 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020 and for the corresponding period.

Componentisation of Assets

The Group and the Company have been depreciating the aircrafts they own or finance leases as a whole, instead of depreciating by respective components (parts) of the aircrafts. *IAS 16, Property, Plant and Equipment* requires that "for each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately." Further, the Group and Company have not maintained financial records by type or class of components of the aircraft to ensure that identification of the type or class of rotatable components (components which are rotated) are available for audit test or for determining the quantum of error in depreciation calculations.

Accordingly, I was unable to determine what adjustments might have been necessary to the statement of financial position as at 31 December 2020 and 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020, and for the corresponding period.

Useful Life of Aircraft

As set out in *Note 13* to the consolidated financial statements, when an aircraft is revalued each year subsequent to its year of purchase, the original useful life determined at the date of purchase of the aircraft has been used to depreciate new value of the aircraft. This means, the Group and the Company “have not been using the remaining useful life” of the aircraft in depreciating the revalued aircraft. Accordingly, the practice has not been consistent with *IAS 16* that requires depreciation of revalued properties, plants and equipment using the remaining useful life. I further noted that certain aircraft have been in service for periods exceeding their original useful lives used for depreciation purposes.

The Group and the Company have not formally re-assessed the useful lives of the aircraft at the balance date, hence, I was unable to test or determine the quantum of the error in depreciation calculations. Accordingly, I was unable to determine what adjustments might have been necessary to the statement of financial position as at 31 December 2020 and 31 December 2019, and statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020, and for the comparative year ended.

Valuation and Ownership of Land and Buildings

Note 13 to the consolidated financial statements disclosed that the Group and the Company carry their land and buildings at revalued amounts with a policy to obtain an independent external valuation every three (3) years. The Group and the Company obtained external valuation of some of their land and buildings at 31 December 2018 with next valuation expected to be carried out in 2021. For the independent external valuations of the properties obtained in 2018, the Directors adopted the external valuation as the valuation of land and building at 31 December 2020. Based on the independent external valuation of 2018, carrying value of land and buildings of the Group and the Company at 31 December 2020 was K414.1 million (2019: K427.4 million).

I was unable to obtain sufficient appropriate audit evidence from the external valuer regarding the inputs used in their valuation, in particular, relating to sales evidence underlying selected capitalization rates and estimated income, as well as the calculations and inputs underlying the estimated depreciation replacement cost. This also relates to the issue described above on opening balance valuations.

Moreover, due to title disputes and access limitations to land, 29 properties with combined carrying value of K9.3 million were not revalued at their three (3) year rotation mark, since 31 December 2018 including 31 December 2020. Hence, I was unable to obtain sufficient appropriate audit evidence over the valuation, control or ownership and existence of these land and buildings at 31 December 2020.

Accordingly, I could not determine what adjustments might have been necessary to the statement of financial position at 31 December 2020 and 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020, and for the corresponding period.

Movements in Aircraft, Property, Plant and Equipment, Assets Held for Sale, and Capital Work in Progress

As disclosed in *Note 13* to the consolidated financial statements, the Group and the Company added aircrafts, property, plant and equipment and assets held for sale to a value of K17.1 million for the year ended 31 December 2020 (2019: K33.9 million). I was not provided with underlying documents including invoices and the basis of the Group and the Company to record and characterize a number of the additions (assets) selected for testing. Also, I was unable to confirm whether the capitalization criteria under *IAS 16, Property, Plant and Equipment* has been met for the items tested.

Consequently, I was unable to determine what adjustments might have been necessary to the statement of financial position at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020.

Provision for Income Tax, Deferred Tax Balances, Goods and Services Tax (GST) and Other Tax Liabilities

The tax liability position of the Group and the Company recorded in the financial statements as at 31 December 2020 and the amount reflected in the Tax Statement of Accounts (TSA) issued by the Internal Revenue Commission (IRC) for the same period did not agree requiring reconciliation. I understand there has been dispute between the Group and the Company and the IRC. However, I was not provided with a management assessment as to the basis of the dispute with the IRC, and to support the tax balances taken up in the financial statements met the requirements of the *International Financial Reporting Standards (IFRS)* including evidence in the adoption of and assessment against the requirements of *International Financial Reporting Interpretation Committee (IFRIC) 23 – Uncertain Tax Position*; and underlying calculation that presented income and deferred tax amounts as disclosed in *Note 7*.

As such, I was unable to obtain sufficient appropriate audit evidence to test the completeness, existence and accuracy of the recorded income tax, deferred tax, GST and other tax liability balances as disclosed in Notes 7, 18 and 26 balances as disclosed in *Notes 6, 15 and 22*.

Consequently, I was unable to determine what adjustments might have been necessary to the statement of financial position as at 31 December 2020 and 31 December 2019, and statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020, and for the corresponding period.

Provision for Doubtful Debts and Expected Credit Loss Calculation as per IFRS 9

Note 9 to the consolidated financial statements of the Group and the Company recognized a provision for doubtful debts of K19.0 million as at 31 December 2020 (2019: K23.8 million) and disclosed the aging of unimpaired trade debtors for the respective reporting dates, as requires by *IFRS 9*. My accuracy test of the debtors ageing report, which has been used as an input to determine the provision for doubtful debts balance revealed that for a number of transactions recorded, the payments received were not applied to the corresponding sales invoice thus, led to inaccuracies within the debtors aging report. I was unable to test through alternative procedures the ageing of these transactions and determine whether or not the provision for doubtful debts was complete and accurate. As a result, I was unable to determine what adjustments might have been necessary to the statement of financial position at 31 December 2020 and 31 December 2019, and statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020, and for the corresponding period, and related disclosures made.

Trade Debtors and Other Receivables

As set out in *Note 9* to the consolidated financial statements, trade and other receivables balances of the Group and the Company were K58.4 million and K133.5 million respectively as at 31 December 2020 (2019: Group K90.1 million; and Company K141.9 million). For a number of these balances, I was unable to test the recorded balances by reference to source documents. In the absence of the Group and the Company providing an assessment and information to reconcile these balances to contracts, invoices or cash receipts, I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness and accuracy of the trade debtors and other receivables balances at 31 December 2020. Consequently, I was unable to determine what adjustments might have been necessary to the statement of financial position as at 31 December 2020, and the statements of profit or loss and other comprehensive income, statement of cash flows and statements of changes in equity for the year ended 31 December 2020.

Trade Creditors and Accruals

Note 18 to the consolidated financial statements of the Group and the Company disclosed that as at 31 December 2020 the trade creditors and accruals balances were K590.1 million and K482.1 million respectively (2019: Group K436.2 million; and Company K380.3 million). I was unable to test the existence, completeness and accuracy of the recorded balances by reference to source documents for a number of these balances. In the absence of the Group and Company providing an assessment and information to reconcile these balances to underlying source documentation, I was unable to obtain sufficient appropriate audit evidence to the existence, completeness and accuracy of the trade creditor and accrual balances, and associated costs and expenses at 31 December 2020. Consequently, I was unable to determine what adjustments might have been necessary to the statements of financial position as at 31 December 2020 and at 31 December 2019, and the statements of profit or loss and other comprehensive income, statement of cash flows and statements of changes in equity for the year ended 31 December 2020, and for the corresponding period.

IFRS 16 – Completeness of Leases and Reasonableness and Accuracy of the Key Assumptions and Inputs

As disclosed in *Notes 14* and *15*, the Group and the Company as at 31 December 2020 recognized right-of-use assets of K225.8 million (2019: K386.7 million), and lease liabilities of K228.0 million (2019: K293.3 million) respectively. I could not obtain documents related to management's process and methodology applied to identify all contracts that meet the definition of a lease as defined by *IFRS 16*. In the absence of the Group and the Company providing their process and methodology, I was unable to test whether all required leases that met the definition of a lease under *IFRS 16* have been recorded at 31 December 2020.

As disclosed in *Notes 11* and *23*, management accounted for the restoration costs of K29.0 million (2019: K26.4 million) and related provisions of K20.5 million (2019: K17.3 million) separately from the initial costs required to be included in the initial measurement of the right-of-use assets and related liabilities. Such treatment is not in accordance with *IFRS 16* which requires the initial measurement of the right-of-use assets to include costs for underlying asset to the condition required by the terms and conditions of the lease. Accordingly, the right-of-use assets balance should be increased to include this restoration costs as at 1 January 2020 with commensurate changes to the lease liability. In the absence of the Group and the Company including these costs in their assessment, it has not been practicable for me to quantify the financial effects.

Furthermore, I noted that a standard 5-year lease term period have been applied for all the properties and some aircrafts lease contracts in order to determine the lease transition accounting entries. Based on my test of a sample of lease contracts, I noted that the lease terms within our sample materiality differed across lease contracts with the respective lessors. I considered the application of a standard 5-year lease term to be not in accordance with *IFRS 16* which states that a portfolio application may only be applied to a portfolio of leases with similar characteristics and that the lease term is the non-cancellable period of the lease, with optional renewal periods and periods after an optional termination date if the lessee is reasonably certain to extend or not terminate early. Accordingly, the lease liabilities, the right-of use assets and related depreciation expense could be incorrect at 31 December 2020. In the absence of management providing revised assessment considering the varied lease terms instead of the standard 5-year lease term period, it has not been practicable for me to quantify the financial effects.

Furthermore, as set out in *Note 3* to the consolidated financial statements, the Group and the Company applied the revaluation method to subsequently measure all right-to-use assets however, as at 31 December 2020, all property lease contracts, with a year-end carrying book values of K21.5 million (2019: K28.9 million) were not revalued. This is not in accordance with the policy of the Group. In the absence of revaluations carried out by the Group and the Company, it has not been practicable for me to quantify the financial effects.

Consequently, I was unable to determine what adjustments might have been necessary to the statement of financial position as at 31 December 2020 and the statements of profit or loss and other comprehensive income, statement of cash flows and statements of changes in equity for the year ended 31 December 2020.

Amalgamation of Subsidiaries and related Party Transactions and Balances

As disclosed in *Note 2B* to the consolidated financial statements, the Company amalgamated its 100% owned subsidiaries Air Niugini Cargo Limited (ANCL) and Business Travel Centre Limited (BTCL) into its operations during 2019. I was not provided a management assessment with relevant working documentation as to the basis of the amalgamation date, nor the basis for balances amalgamated into the financial statements on that date, nor the basis for compliance with the *International Financial Reporting Standards (IFRS)*.

As such, I could not obtain sufficient appropriate audit evidence to test the completeness or accuracy of the assets and liabilities taken up in the Company financial statements. Additionally, I was not provided with supporting schedules of agreements between parties to test the related party transactions. Thus, I was unable to obtain sufficient appropriate audit evidence over the completeness, existence and accuracy of the amalgamation of the subsidiaries at 31 December 2020.

Consequently, I was unable to determine what adjustments might have been necessary to the statement of financial position as at 31 December 2020 and 31 December 2019, and the statements of profit or loss and other comprehensive income, statement of cash flows and statements of changes in equity for the year ended 31 December 2020, and for the corresponding period.

Loyalty Program Contract Liability

As disclosed in *Note 20* to the consolidated financial statements, other revenue received in advance balance of the Group and the Company was K32.3 million liability (2019: K28.7 million receivable), which included a recognized loyalty program contract liability of K25.0 million (2019: K23.2 million). In relation to the loyalty program contract liability calculation model, I was not provided with the underlying supporting inputs and assumptions used by the Group and the Company in this model.

In the absence of the Group and the Company providing this information, I was unable to obtain sufficient appropriate audit evidence regarding the completeness, existence and accuracy of the recognized loyalty program liability balance as at 31 December 2020.

Consequently, I was unable to determine what adjustments might have been necessary to the statement of financial position of the Group and the Company as at 31 December 2020, and the statements of profit or loss and other comprehensive income, statement of cash flows and statements of changes in equity for the year ended 31 December 2020.

Management Override of Controls

I considered the extent of the matters reported above to be pervasive to the financial statements. As a result, it had not been practicable of me to test the risks of management override of controls for the Group and the Company for the year ended 31 December 2020, and its impacts to the financial reporting compilation processes and output.”

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 2021 was in progress.

65A. AIR NIUGINI CARGO LIMITED **(A subsidiary of Air Niugini Limited)**

65A.1 INTRODUCTION

65A.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.

65A.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.

65A.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 years ended 31 December 2019, 2020 and 2021 for my inspection and audit.

65B. AIR NIUGINI PROPERTIES LIMITED **(A subsidiary of Air Niugini Limited)**

65B.1 INTRODUCTION

65B.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 commenced operations in December 2018 and on 24 January 2019, the change of name was formally effected.

65B.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.

65B.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 years ended 31 December 2019, 2020 and 2021 for my inspection and audit.

65C. BUSINESS TRAVEL CENTRE LIMITED **(A subsidiary of Air Niugini Limited)**

65C.1 INTRODUCTION

65C.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.

65C.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*."

65C.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 years ended 31 December 2019, 2020 and 2021 for my inspection and audit.

65D. LINK-PNG LIMITED **(A subsidiary of Air Niugini Limited)**

65D.1 INTRODUCTION

65D.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.

65D.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.

65D.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2016 was substantially 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 years ended 31 December 2017 and 2018 were in progress.

The Company had not submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 for my inspection and audit.

66. KUMUL AGRICULTURE LIMITED

66.1 INTRODUCTION

66.1.1 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.

66.1.2 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.

66.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

66.2.1 Comments on Financial Statements

My report in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2019 was issued on 27 September 2021. 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 to provide a basis for an audit opinion. Accordingly, I am unable to and do not express an opinion on the financial statements of the Company for the year ended 31 December 2019.

BASIS FOR DISCLAIMER OF OPINION

Validity of Consultancy Costs – K707,880

The income statement includes consultancy costs amounting to K707,880 as disclosed in *Note 6* to the financial statements. I was not provided with documentary evidence of the following items:

- Compliance with generally accepted procurement processes such as a call for tenders and evaluation of bids to select the best consultants on the basis of competent financial and technical capabilities;
- Properly drafted and executed consultancy agreements setting out the scope of works, reporting deliverables, fees agreed, and other relevant terms and conditions of the consultancy contract; and
- Copies of reports or other deliverables produced by the consultants to confirm work performed, information acquired and if intellectual property arising from such work had been appropriately retained and secured for the benefit of the Company.

Accordingly, I could not satisfy myself that consultancy expenses incurred and recognized in the profit and loss statement were appropriately procured in the best interest of the Company and consequently the validity of the said consultancy costs.

Accounting for Biological Assets and Bearer Plants

Kumul Agriculture Limited is an agricultural focussed entity that will be involved in dealing with livestock and crops and their related valuations. These activities are covered by a specific accounting standard, *IAS 41 Biological Assets* which prescribes the specific accounting treatment for dealing with livestock and bearer plants with their related valuations.

In 2018, bearer plants include the rubber trees in Cape Rodney Rubber Ltd and Cocoa Trees in Dylup Plantation, while livestock include any cattle such with Central Dairy and held elsewhere.

I noted that the Company has not made specific consideration of these requirements and the information is insufficient to implement those requirements therefore, interests in these assets are recognised as investments in subsidiaries. As a result, the financial statements are materially misstated.

Interest in Livestock Development Corporation (LDC)

I noted that NEC Decision No. 221/2018 gives approval for Livestock Development Corporation (LDC) to be transferred to Kumul Agriculture Limited. Based on discussions with management of Kumul Agriculture Limited, I understand LDC has assets located in various parts of the country comprising;

- Agricultural Land; and
- Agricultural infrastructure such as abattoirs and farms.

I believe that bureaucratic procedures are slow and the required transfer instruments including supporting documentation such as asset registers, land titles and financial statements are yet to be progressed. At the time of this report, transfer has not occurred and timeframe or project management plan to effect the transfer was not yet available.

The NEC decision is not being complied with as far as transfer of assets from LDC to Kumul Agriculture Limited is concerned and the extent to which its impacts on the objectives of the Company and, the value of any assets be transferred including land and related infrastructure are not included in the financial statements thus materially misstating the accounts.

Validity of Work in Progress – K842,487

Note 17 to the financial statements discloses Work in Progress (WIP) amounting to K842,487 representing costs incurred for potential agricultural projects. I was not provided with the following documentation for my audit review:

- Business cases or proposals to provide the background, business rationale and objectives of the expenditure;
- The project plans setting out the actual work plan, timeframes, milestones, and activities to be undertaken;
- The project budget setting out the financial and other resource requirements; and
- Monitoring and evaluation mechanism and reporting.

Furthermore, the following additional observations were noted:

- i.** Arokara Coffee Limited incurred an additional K20,000 (2018: K369,487) resulting in a total spending of K389,487 as at the year-end towards a coffee rehabilitation project. However, no agreements between Arokara Coffee Limited and Kumul Agriculture Limited was available for review that provides the basis and justification including the economic benefits accruing to the Company for these payments; and

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- ii. Land designated as Portion 2 Lae, incurred an additional K13,000 (2018: K420,000) resulting in a total spending of K433,000 as at the year end. I noted that despite a settlement statement evidencing payment of the funds, there was neither a sales and purchase contract nor a valid title to the land available for audit verification.

As a result of these findings and the existence of potential fraud and manipulation of records, I am unable to satisfy myself as to the validity, probity, and recoverability of work in progress and whether or not the expenditure was appropriately procured in the best interest of the Company and shareholders.

GST Receivable – K580,227

Note 13 to the financial statements include GST receivable amounted to K580,227. A statement from the Internal Revenue Commission (IRC) was not provided and an appropriate reconciliation between the general ledger balance and IRC statement was not prepared.

Therefore, I could not satisfy myself as to the completeness, accuracy, and recoverability of the GST balance recorded.

Management of Cape Rodney Rubber

The Company recorded an investment for Cape Rodney Rubber amounting to K4.1 million relating to the rubber plantation estate. I noted that this value was provided to the company by Kumul Consolidated Holdings (KCH) without any documentary evidence or a proper independent validation and assessment by the Company (Kumul Agriculture Limited) on its own. Furthermore, I understand that the estate has not been visited to ascertain the state of the plantation and any related infrastructure so that the value can be allocated to tangible assets physically available on the ground. I therefore could not validate and ascertain the value of the investment recorded at K4.1 million.

Investment in Joint Arrangements K24,100,000

Note 15 to the financial statements, the Company brought forward investment in joint arrangements for interest in Central Dairy Ltd and Sepik Agro Ltd amounting to K24,100,000 based on values provided by Kumul Consolidated Holdings (KCH). The financial statements of the joint venture were not made available and accordingly, I could not assess the appropriateness of measurement and valuation of the amounts recorded in the balance sheet, and the share of joint venture operating results in the income statement.

Investment in and Consolidation of Subsidiaries K16,011,430

Note 16 to the financial statements, the Company brought forward investment in subsidiaries of K11,903,951 and K4,107,479 relating to Dylup Plantation and Cape Rodney Rubber Ltd respectively based on values provided by Kumul Consolidated Holdings (KCH).

The financial statements of these subsidiaries were not available and therefore the Group accounts have not been consolidated as required by *International Financial Reporting Standard (IFRS) 10*.

Consequently, I am unable to determine the extent of which assets, liabilities, equity, income, and expenses necessary to be adjusted for the impact of consolidation.

Group Tax (Salary and Wages Tax) – K1,479,256

Note 19 to the financial statements included Group Tax payable amounting to K1,479,256. A statement from the Internal Revenue Commission (IRC) was not provided and an appropriate reconciliation between the general ledger balance and IRC statement was not prepared. Therefore, I could not satisfy myself as to the completeness, accuracy, and validity of the Group Tax balance recorded.

Source Documents of Board Expenses – K410,118

Note 10 to the financial statements disclosed board expenses amounting to K410,118. I was not provided with documentary evidence of the gazettal notice and copies of directors' letters of appointments setting out the terms and conditions of directors' appointment including the number of meetings to be attended and fees payable for services. Accordingly, I could not satisfy myself as to the validity and appropriateness relating to the measurement of the Board fees and expenses as recorded in the statement of profit and loss for the year ended 31 December 2019.”

66.2.2 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 27 September 2021. The report contained the following significant matters:

Annual Budget and Business Plans

Kumul Agriculture Limited (KAL) was incorporated on 13 November 2017 to take carriage on the Independent State of Papua New Guinea’s (the State) interest in commercial agriculture projects. I noted that in 2019 the Government through NEC and Kumul Consolidated Holdings (KCH) provided K1.2 million as working capital and administrative support. Similar grant of K10 million was given in 2018 of which K9.3 million was utilized.

My attempts to review the 2018 and 2019 expenditures against budgets and business plans were unsuccessful as no approved business plan or a detailed budget was made available.

I recommended that a business plan and budget must be formulated by management and approved by the board within reasonable time and prior to the year-end. These must be used to guide management during the course of the year to ensure the Company expends management time and other resources effectively and efficiently in the pursuit of its business goals.

The management responded as follows:

“The current management have prepared business plan and budget during the period. 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 and Oversight

The Board of Kumul Agriculture Limited had two (2) meetings during the year. Whilst the minutes of the meetings were kept, there were no supporting board papers to provide a proper understanding of the matters considered and the relevant facts related to the Board deliberations. These should include:

- Financial reports;
- Written CEO reports;
- Risk reports; and
- Business strategy papers.

I recommended that the Board should receive appropriately well documented board papers to allow members of the Board reasonable opportunity to read 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.

Management responded that:

“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 advisors, etc. with suitable cost/benefit analysis, options, analysis and assessments for the Boards’ independent review and consideration.”

Fixed Assets – Verification

During my physical verification exercise, I was not able to verify four (4) laptops amounting to K14,890. I noted that these laptops were in the custody of staff who have exited the Company. Laptops present a desirable and high value personal items that are susceptible to employee theft.

I recommended to management that a physical verification exercise must be planned and undertaken on a regular basis to ensure the fixed assets are properly registered and monitored. Furthermore, a robust tracking of high value digital equipment must be improved to avoid employee theft and manipulation of controls in the near future. Management took note of my recommendations and assured to undertake the physical verification exercise on a regular basis to ensure the fixed assets are properly registered and monitored.

Impairment Assessment of Investments

I noted that the investment of K40 million is presently without appropriate supporting documentation and consequently an assessment of the recovery of the asset cannot be performed.

The Company has no documentation to support this investment and ought to have custody of the records to support as the balance is material to its books and organizational mandate. Accounting standards dictates that assets may not be carried at more than their recoverable amounts and such an assessment is not possible without appropriate documentation.

I recommended that management have to obtain the sufficient and appropriate documentation to support significant amounts in the balance sheet. As the primary custodian of these assets, it must maintain all the records that provide basis of measurement of these assets upon initial recognition and the changes in values arising from subsequent transactions.

Payment Voucher and Cheque Requisition

I noted that a total of K961,104 under administrative, operational, and travel expenses had no payment vouchers, purchase order authorization, invoice and delivery notes prepared and attached to all source documents. Without signed and approved payment vouchers, purchase order authorisations, invoices and delivery notes there is a high likelihood of fraud, errors and duplications involved during imputation of the expenditure data into the accounting system. This may result in material misstatements in the account balances.

| Account Name | Amounts (K) |
|-------------------------------|----------------|
| Administrative expense | 513,158 |
| Operational expense | 245,556 |
| Travel expense | 202,390 |
| Total | 961,104 |

I recommended to management that there has to be a detailed signed payment voucher, purchase order authorization, invoice and delivery note prepared for every cheque payments highlighting the relevant expenditure types, the related and appropriate program activity codes, and grouped together with supporting documents.

Management responded as follows:

“KAL Management is improving internal controls whereby detailed signed payment voucher, purchase order authorization, invoice and delivery note prepared for every cheque payments. All of the transactions under review for this period relate to previous management dealings.”

66.3 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 2020 and 2021 for my inspection and audit.

67. KUMUL PETROLEUM HOLDINGS LIMITED

67.1 INTRODUCTION

67.1.1 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 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.

67.1.2 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*.

67.1.3 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 67A to 67Q of this Report respectively.

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 Company's financial statements for the year ended 31 December 2019 was issued on 29 September 2021. The report did not contain any qualification.

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 2019 was issued on 29 September 2021. The report contained the following observations:

Internal Control Environment

My review of the internal control systems surrounding the operations of the Group during the year ended 31 December 2019 identified a number of weaknesses in the overall internal control environment. This included issues with the Group's accounting systems.

Management information was insufficient and reconciliations were not performed for some items included in the Statement of Financial Position, and/or reconciliations were not done between the general ledger and sub ledgers as at and when due, which resulted in delays in receipt of information for my audit. In addition, once the reconciliations were received, in a number of instances, further analysis was often required of the reconciling items and additional supporting documentation had to be requested.

As such, I recommended that management implements a system whereby reconciliations are prepared for all balance sheet accounts on a frequent and regular basis and that reconciling items are followed up promptly, critically reviewed and historical reconciling items and clearing items are resolved in order to ensure completeness and accuracy of data for reporting purposes.

Whistle-blower Policy

I noted that the Group does not have a formal documented policy on reporting of fraud and there is no whistle blowing hotline or ethics department to enable reporting of fraud or theft by anyone. When there is no formal written policy in place, there is an increased risk that employees will ignore verbal policies or ethical business guidelines relating to fraud reporting and whistle-blowing action.

I recommended management that a written whistle-blowing policy be documented and made aware to all employees. Management should also consider putting in place a whistle blowing platform that is anonymous, train the staff on how to use it and encourage them to use it. I advised that emphasis should be placed on anonymity to encourage acceptance and use by staff.

Late Posting of Significant Post Period end Adjustments

At the commencement of my audit fieldwork, a number of general ledger reconciliations were made available. However, during the course of my audit, I received a final version of the consolidation worksheet with a number of significant adjustments posted, some of which were recurring entries, which affected the extent of my audit procedures.

I recommended management to perform a detailed review of the consolidation worksheet prior to release for my audit and ensure that all recurring adjustments are properly accounted for, especially those material transactions.

Prior Period error Relating to the Accounting Treatment of the Kroton Equity Options

The Kroton Equity Options (Options) have been historically accounted for and recognized over a two-year period (2017 and 2018) to reflect the Group's earlier view that only some of the *Beneficiary Group* had exercised the Options by 31 December 2016, with the balance in 2018.

The recognition of the Options over these periods impacted the following Kumul Petroleum (Kroton) Limited's financial statement balances:

| | Statement of Comprehensive Income (US\$) | Statement of Financial Position (US\$) |
|--|--|--|
| Financial liability | | (213,000,500) |
| Reserves | | (143,473,100) |
| Options expense | 56,769,100 | |
| Changes in fair value of liabilities (FV change) | 28,745,183 | |

Upon seeking clarification on this position with the Company's legal office, it is their view that the *Beneficiary Group* had accepted the Options, either in their own right or through the Trustee, Mineral Resources Development Company Limited (MRDC) by 31 December 2016, and it was sufficient to conclude at that time that the Options had been properly and legally exercised by that date.

In light of this, the correct accounting treatment should have been to recognize the Options in full on 31 December 2016. Applying this would have resulted in the following adjustments to the financial statements:

| Statement of Comprehensive Income (US\$' 000) | | | Statement of Financial Position (US\$' 000) | | | |
|--|-----------|------------|--|---------------|------------|------------------|
| | 31-Dec-18 | Adjustment | 31-Dec-18 | 31-Dec-18 | Adjustment | 31-Dec-18 |
| FV change | (28,745) | (5,655) | (34,400) | - | - | - |
| Option | (56,769) | 56,769 | - | | | |
| Net Profit | 179,399 | 51,114 | 230,513 | | | |
| Financial Liability | - | - | - | 213,001 | - | 213,001 |
| Reserves | - | - | - | (143,473) | - | (143,473) |
| Opening Retained Earnings | - | - | - | (10,253) | (51,114) | (61,367) |
| Closing Retained Earnings | - | - | - | 79,147 | - | 79,147 |

Except for the Comparative Information (2018), these adjustments have no impact on the financial statements for the year ended 31 December 2019.

Review of Updated Loan Agreements and Interest Calculations

During my review, I noted that the Group calculated its interest expense from loans using an old interest rate throughout the year. Per my inspection of the statement of account and letter of variation from BSP noted a change in interest rate starting in the 4th quarter of 2019. Furthermore, I noted that the management overstated the interest accrued at year end by using more days than the actual in their calculation.

I recommended management to conduct regular reviews of updated loan agreements with the bank and update the calculation of monthly interest expense based on the new terms of the loan.

Accounting for Accruals and Prepayments

I identified a number of audit adjustments related to accruals and prepayments (e.g. under-accrual in the Parent entity and under-amortised prepayment in non-producing entities).

I recommended management to introduce regular periodic reviews of prepayments and accrual accounts across the Group, particularly old prepayment balances and accruals, and unusual balances.

Depreciation of Fixed Assets and Oil and Gas Assets

In the course of my audit, I identified a number of assets where no depreciation charges had been recorded in the current year. In addition, upon review of the Group's accounting treatment of the change in depreciation method of oil and gas assets from straight line to unit of production method, I noted an adjustment was posted to account for the change retrospectively, which was not in line with the requirements of *IAS 8, Accounting policies, Changes in Accounting Estimates and Errors*, (being a change in accounting estimate should be accounted for prospectively). Appropriate correction had been made to the financial statements during the audit.

I recommended management to perform a regular review of fixed assets register and identify assets that still need to be depreciated based on the appropriate applicable depreciation rates and also remain vigilant to the requirements of IFRS when making accounting decisions.

Valuation of Foreign Currency Denominated Balances

The Group had a number of account balances denominated in PGK as at 31 December 2019 such as some cash in banks, accounts payable and bank loans. Accounting standards require that such balances are converted to the functional currency (i.e. US\$) based on the closing rate at each period end until settlement.

The Group has a practice of recording PGK transactions at the actual spot rate without translating the monetary asset or liability based on spot rate as at year-end. This had the effect of misstating cash in banks and loan balances as well as the foreign exchange gain/loss in the income statement. Audit adjustments were recorded to correct cash in banks and loans payable as a result of this matter.

I recommended management to perform translation of all balances denominated in currency other than US\$ on a monthly basis. This will eliminate the impact of accumulation of significant translation differences resulting in the misstatement of cash in banks and loan balances as well as the foreign exchange gain/loss in the income statement.

Intercompany Reconciliations

I noted that a number of intercompany balances had still been recorded in the book of one entity but already written off in another (related) entity, which created difficulties in intercompany reconciliations and eliminations during the consolidation process. In addition, some of the transactions were recorded in one entity but actually relate to another entity.

I recommended management to strengthen the related review process of intercompany reconciliation on a regular basis and proper accounting of intercompany transactions.

Reconciliation of Opening Balances

During the course of my audit, I noted variances between opening balances per general ledgers and figures per the prior year audited financial statements. Management concurred that these discrepancies were brought about by the unbooked audit adjustments from prior year.

Management should review all the audit adjustments proposed by me and posted for purposes of the financial statements preparation right after the audit is completed. This will allow proper reconciliation of opening balances in the subsequent financial year and avoid delays in audit.

Regular Update of Bank Account Signatories

As per my confirmation procedure of the Group's bank accounts, I noted that some of the signatories in the list confirmed by the bank were no longer connected with the Group or were no longer authorized as at 31 December 2019.

I suggested the Group to perform regular communication with the bank regarding the updated list of authorized signatories to ensure proper approval of cash transactions.

Equity Share in Gloco

I noted that the equity share of Kumul Petroleum (Kroton) Limited and Kumul LNG Limited over Gloco is presented under cash and cash equivalents rather than a separate line item in the financial statements.

Although the amount is not significant, I recommended management to consider presenting this item in the financial statement under the investment line item in compliance with *IAS 1, Presentation of Financial Statements*.

Retention of Accounting Records

During the course of my audit, there were difficulties in providing the supporting documents for the samples of transactions and balances selected for purposes of my testing. This had caused delay in the completion of the audit.

I recommended strengthening processes around filing and archiving through retaining scanned documents before placing documents inside a container, which leads to difficulties in retrieving documents. Aside from the early completion of the audit, it is also important in the case of tax assessments, and impacts attempts to recover income tax receivables and insurance claims.

Supplier Reconciliation Statements

I noted that the Group did not have a process of monthly reconciliation of its outstanding accounts with their suppliers.

I suggested management to implement this process at least on a monthly basis with its suppliers particularly those with large balances and/or with voluminous transactions. By doing so, the Group would ensure that supplier balances are accurate for financial reporting and no credit notes are missing or invoices duplicated.

Non-establishment of an Internal Audit Department

I noted during my review of the internal control systems that KPHL did not have an internal audit department. It would be appropriate for an organization experiencing high volume of money transactions to establish an internal audit department which would facilitate the organization to identify accounting issues as well as control issues surrounding operations of the organization in a timely manner.

It had come to my attention that having no internal audit department had been one of the reasons for the long delay in closing the month end reconciliation of all general ledger accounts and a number of revised adjustment journals having passed during the course of my audit hence, causing long delays in completion of the audit.

As a result of not having the internal audit department, one of the financial executives misused the credit card was not detected in a timely manner, and when detected lately the officer was terminated.

Internal audit provides assurance on the effectiveness of corporate governance, risk management and internal controls, and reports directly to the governing body whilst, providing greater independence. An effective internal audit provides greater assurance to stakeholders. Therefore, I recommended KPHL that the internal audit function be established.

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 2020 had been substantially completed.

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 2021 was in progress.

67A. EDA OIL LIMITED **(A subsidiary of Kumul Petroleum Holdings Limited)**

67A.1 INTRODUCTION

67A.1.1 Legislation

Eda Oil Limited was incorporated under the *Companies Act*. At that time, the Company had 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.

67A.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.

67A.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 had been completed and the results were being evaluated and awaiting signed financial statements.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2020 and 2021 were in progress.

67B. KUMUL EXPLORATION (ASIA) LIMITED **(A subsidiary of Kumul Petroleum Holdings Limited)**

67B.1 INTRODUCTION

67B.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.

67B.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).

67B.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 had been completed and the results were being evaluated and awaiting signed financial statements.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2020 and 2021 were in progress.

67C. KUMUL GAS FORELAND 239 B.V **(A subsidiary of Kumul Petroleum Holdings Limited)**

67C.1 INTRODUCTION

67C.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 Exploration (Asia) Pte Limited is the sole shareholder of Kumul Gas Foreland 239 B.V.

67C.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;
- raise funds, to acquire, to dispose off, 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;
- render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; and
- engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects and all this in the broadest sense.

67C.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. Further, the Business Register extract from the Netherlands Chamber of Commerce shows that the Company had been deregistered as from 1 May 2020, however, no liquidation report had been provided to my Office.

67D. KUMUL GAS FORELAND 261 B.V **(A subsidiary of Kumul Petroleum Holdings Limited)**

67D.1 INTRODUCTION

67D.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 Exploration (Asia) Pte Limited is the sole shareholder of Kumul Gas Foreland 261 B.V.

67D.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;
- raise funds, to acquire, to dispose off, 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;
- 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.

67D.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. Further, the Business Register extract from the Netherlands Chamber of Commerce shows that the Company had been deregistered as from 1 May 2020, however, no liquidation report had been provided to my Office.

67E. KUMUL GAS FORELAND 268 B.V **(A subsidiary of Kumul Petroleum Holdings Limited)**

67E.1 INTRODUCTION

67E.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 Exploration (Asia) Pte Limited is the sole shareholder of Kumul Gas Foreland 268 B.V.

67E.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;
- raise funds, to acquire, to dispose off, 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;
- render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; and
- engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects and all this in the broadest sense.

67E.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. Further, the Business Register extract from the Netherlands Chamber of Commerce shows that the Company had been deregistered as from 1 May 2020, however, no liquidation report had been provided to my Office.

67F. KUMUL GAS FORELAND 269 B.V **(A subsidiary of Kumul Petroleum Holdings Limited)**

67F.1 INTRODUCTION

67F.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 Exploration (Asia) Pte Limited is the sole shareholder of Kumul Gas Foreland 269 B.V.

67F.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;
- raise funds, to acquire, to dispose off, 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,
- 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 objectives and all these in the broadest sense.

67F.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. Further, the Business Register extract from the Netherlands Chamber of Commerce shows that the Company had been deregistered as from 1 May 2020, however, no liquidation report had been provided to my Office.

67G. KUMUL GAS NIUGINI B.V **(A subsidiary of Kumul Petroleum Holdings Limited)**

67G.1 INTRODUCTION

67G.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 Exploration (Asia) Pte Limited is the sole shareholder of Kumul Gas Niugini B.V.

67G.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;
- raise funds, to acquire, to dispose off, 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;
- render administrative, technical, financial, economic, commercial or managerial services to companies, partnerships and other enterprises; and
- engage in all activities, whether or not in collaboration with others, which directly or indirectly relate to those objects and all this in the broadest sense.

67G.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, 2019, 2020 and 2021 for my inspection and audit.

67H. KUMUL LENDING CO PTE LIMITED **(A subsidiary of Kumul Petroleum Holdings Limited)**

67H.1 INTRODUCTION

67H.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.

67H.1.2 Objective of the Company

The key objective of the Company is to undertake fund management activities.

67H.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 had been completed and the results were being evaluated and awaiting signed financial statements.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2020 and 2021 were in progress.

67I. KUMUL LNG LIMITED **(A subsidiary of Kumul Petroleum Holdings Limited)**

67I.1 INTRODUCTION

67I.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.

67I.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.

67I.2 AUDIT OBSERVATIONS

67I.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 29 September 2021. The report did not contain any qualification.

67I.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 2020 had been substantially completed.

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 2021 was in progress.

67J. KUMUL PETROLEUM (DEVELOPMENT) LIMITED **(A subsidiary of Kumul Petroleum Holdings Limited)**

67J.1 INTRODUCTION

67J.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.

67J.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.

67J.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 the results were being evaluated. Issuing of my reports for these audits have been long delayed due to the fact that the Company has investment in NPCP Oil Company Pty Limited, and the audit of NPCP had been delayed owing to slow information flows and changes in Management assisting the audit.

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 2019, 2020 and 2021 were in progress.

67K. KUMUL PETROLEUM (INVESTMENTS) LIMITED **(A subsidiary of Kumul Petroleum Holdings Limited)**

67K.1 INTRODUCTION

67K.1.1 Legislation

The 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.

67K.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.

67K.2 AUDIT OBSERVATIONS

67K.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 2019 was issued on 29 September 2021. The report did not contain any qualification.

67K.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 2020 had been substantially completed.

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 2021 was in progress.

67L. KUMUL PETROLEUM (KROTON) LIMITED **(A subsidiary of Kumul Petroleum Holdings Limited)**

67L.1 INTRODUCTION

67L.1.1 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.

67L.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.

67L.2 AUDIT OBSERVATIONS

67L.2.1 Audit Observations Reported to the Ministers

My report in accordance with the provisions of the *Companies Act* on the financial statements of the Company for the year ended 31 December 2019 was issued on 29 September 2021. 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 Petroleum (Kroton) 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 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 explanation required.

BASIS FOR QUALIFIED OPINION

Comparative information

The Company had incorrectly accounted for the Kroton Equity Options (Options) in prior periods. As a result of this, the Statement of Comprehensive Income includes an expense recognised for the Options of US\$56,769,100 for the year ended 31 December 2018. The expense for the 2018 accounting period should have been Nil. In addition, changes in the fair value of the financial liabilities was US\$28,745,183 rather than US\$34,400,000. No adjustments to the comparative information have been made to reflect the correct accounting treatment. Had this been corrected, the net profit before tax for the year ended 31 December 2018 would have been increased from US\$143,485,000 to US\$194,599,000. This error has not impacted the statement of financial position as at 31 December 2018 and 31 December 2019, or the statement of comprehensive income, statement of changes in equity or statement of cash flows for the year ended 31 December 2019.”

67L.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 2020 had been substantially completed.

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 2021 was in progress.

67M. KUMUL PETROLEUM (PIPELINE) LIMITED **(A subsidiary of Kumul Petroleum Holdings Limited)**

67M.1 INTRODUCTION

67M.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.

67M.1.2 Objective of the Company

The Company holds the interest of Kumul Petroleum Holdings Limited in the Western Pipeline (Strategic Pipeline) Project.

67M.2 AUDIT OBSERVATIONS

67M.2.1 Audit Observations Reported to the Ministers

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 29 September 2021. The report did not contain any qualification.

67M.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 2020 had been substantially completed.

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 2021 was in progress.

67N. KUMUL PETROLEUM (TECH & ADVISORY) LIMITED (A subsidiary of Kumul Petroleum Holdings Limited)

67N.1 INTRODUCTION

67N.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).

67N.1.2 Objective of the Company

The principal objective of the Company is to provide professional and other business services.

67N.2 AUDIT OBSERVATIONS

66N.2.1 Audit Observations Reported to the Ministers

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 29 September 2021. The report did not contain any qualification.

67N.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 2020 had been substantially completed.

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 2021 was in progress.

670. KUMUL PETROLEUM MARKETING PTE LIMITED **(A subsidiary of Kumul Petroleum Holdings Limited)**

670.1 INTRODUCTION

670.1.1 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.

670.1.2 Objective of the Company

The Company is to be engaged in the Marketing of Liquefied Natural Gas, Condensate and other related products.

670.2 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 had been completed and the result were being evaluated and awaiting signed financial statements.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2020 and 2021 were in progress.

67P. KUMUL SECURITY AGENT LIMITED
(A subsidiary of Kumul Petroleum Holdings Limited)

67P.1 INTRODUCTION

67P.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.

67P.1.2 Objective of the Company

The key objective of the Company is to undertake fund management activities.

67P.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 had been completed and the result were being evaluated and awaiting signed financial statements.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2020 and 2021 were in progress.

67Q. NPCP OIL COMPANY PTY LIMITED **(A subsidiary of Kumul Petroleum Holdings Limited)**

67Q.1 INTRODUCTION

67Q.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.

67Q.1.2 Objectives 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.

67Q.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, 2019, 2020 and 2021 were in progress.

There have been prolonged delays in completing and issuing the audit reports for the years ended 31 December 2015, 2016, 2017 and 2018 due to slow information flows and changes in Management assisting the audit. Accordingly, finalizing and issuing of my reports on the audits of the Company for the years subsequent to 2018 had been held up.

68. KUMUL TELIKOM HOLDINGS LIMITED

68.1 INTRODUCTION

68.1.1 Legislation

Kumul Telikom Holdings Limited (KTH) was incorporated under the *Companies Act* on 21 May 2018 in accordance with *NEC No. 44/2017*.

68.1.2 Functions of the Company

The principal functions of the Company are to:

- hold all of the shares of Telikom PNG Limited, Bemobile and PNG DataCo;
- transfer Kumul Consolidated Holdings (KCH) interest in Bemobile and PNG DataCo;
- rationalize telecommunication sector to develop a profitable, competitive and sustainable enterprise; and
- restructure the three communications entities (Telikom Limited, Bemobile Limited and PNG DataCo Limited) into one communication service provider from wholesale services to retail mobile and fixed line.

68.1.3 Subsidiaries of the Company

The Subsidiary of Kumul Telikom Holdings Limited is Bemobile Limited. Bemobile Limited has a subsidiary company in Bemobile (Solomon Islands). Comments in relation to this subsidiary is contained in paragraphs 68A and 68A.1 of this Report respectively.

68.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company has not prepared and submitted the financial statements for the years ended 31 December 2018, 2019, 2020 and 2021 for my inspection and audit.

In 2021, I was informed that the Company was undergoing another restructure this time establishing only Telikom Limited and amalgamating Bemobile Limited. Until I receive sufficient information of the restructure, I will still report these companies in this Report.

68A. BEMOBILE LIMITED **(A subsidiary of Kumul Telikom Holdings Limited)**

68A.1 INTRODUCTION

68A.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.

68A.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.

68A.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 68A.1 of this Report.

68A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

68A.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 2018 and 2019 were issued on 30 September 2021 while the 2020 report was issued on 21 February 2022. The reports contained similar Disclaimer of Opinions, hence, only 2020 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 am unable to and do not express an opinion on the financial statements of the Bemobile Limited for the year ended 31 December 2020.

BASIS FOR DISCLAIMER OF OPINION

Prior Period Disclaimer of Opinion and Opening Balances

A disclaimer of opinion was issued over the financial statements for the 31 December 2019 financial year. There were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance as to the correctness of the opening balances. Since the opening balances enter into the determination of the financial performance, I was unable to determine whether adjustments might have been necessary in respect of the loss reported for the year.

Going Concern

The Group reported a loss of K54.2 million in the statement of comprehensive income. In addition, I draw attention to *Note 1.1.1* in the financial statements which indicates current liabilities exceed current assets for both the Group and Company by K365.9 million and K350.1 million respectively. In addition, K350.2 million bank loan facilities were due to mature in 2018 as well as the Company breaching certain covenants in relation to the loan facilities it has from its bankers. These events or conditions, along with other matters as set out in *Note 1.1.1* indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern. Furthermore, I was not provided with adequate documentation to support the reasonableness of the going concern assumption applied in the preparation of the financial statements for the Company and the Group.

Revenue

Note 4 to the financial statements disclosed that the Group's total revenue from call, termination and roaming and handset sales for the year ended 31 December 2020 was K159.1 million. I was not provided with sufficient and appropriate audit evidence to identify and confirm this balance. In addition, I was unable to obtain comfort over the Information and Technology General Controls (ITGCs). As ITGCs are fundamental to the audit of revenue balances in businesses of this nature, I was not able to obtain sufficient and appropriate audit evidence with regards to the completeness, occurrence, cut-off and accuracy of the revenue for the year and the deferred revenue balance at 31 December 2020 as recorded in the Company's and the Group's financial statements.

International Financial Reporting Standard 16 Leases (IFRS 16)

IFRS 16 is a new Accounting Standard that became mandatory for the first time in the 31 December 2019 financial year. The Group has continued to classify leases in accordance with *IAS 17 – Leases* and has not implemented *IFRS 16*. As a result, I was unable to determine whether any material adjustments might have been necessary in respect of the opening balances, balances recognised at 31 December 2020, the result for the year reported in the statement of comprehensive income and the elements making up the statement of financial position, statement of changes in equity and the statement of cash flow in the Company's and Group's financial statements.

Impairment of Property, Plant and Equipment

Property, plant and equipment were carried at K170 million and K122 million in *Note 11* for the Group and the Company as at 31 December 2020 respectively. Despite the presence of impairment indicators, the Group and the Company have not prepared an impairment assessment test to determine the recoverable value of these assets as required by *IAS 36 Impairment of Assets*. As a result, I was unable to determine if any impairment have arisen in relation to these assets and whether their carrying values are appropriate in the Group's and the Company's financial statements.

Capital Work in Progress

Capital work in progress of approximately K24.9 million as at 31 December 2020 has been included within property, plant and equipment of the Group as disclosed in *Note 11*. I was unable to obtain sufficient appropriate audit evidence to ascertain the costs related to ongoing projects at year end. As a result, I was unable to determine if it was appropriate to capitalise such costs and whether any material adjustments to the classification of the capital work in progress balance at 31 December 2020 and the depreciation expense for the year in the Company's and the Group's financial statements were required.

Trade and Other Receivables

Trade and other receivables of the Company and the Group as at 31 December 2020 was K43.3 million. However, I was unable to obtain sufficient appropriate audit evidence regarding the existence, valuation, classification, accuracy, recoverability and related expected credit losses of the entire trade and other receivable balances. As a result, I was unable to determine whether any material adjustments to the trade and other receivable balances as at 31 December 2020 and the receivables impairment expense for the year in the Company's and Group's financial statements were required.

Recoverability of the Related Party Balance

The Company and Group have not fully implemented *IFRS 9* in the 31 December 2020 financial year to determine the expected credit loss pertaining to receivable of K32 million from the subsidiary company as disclosed in *Note 22*. As a result, I was unable to determine whether any material adjustments might have been necessary in respect of the opening balances of these receivables, balances recognised at 31 December 2020 and the results for the year in the Company's and Group's financial statements.

Trade and Other Payables - Telikom PNG Limited

Total trade and other payables as at 31 December 2020 was approximately K249 million as disclosed in *Note 12*. Out of this amount, K89.6 million is recognised as owing to Telikom PNG Limited as disclosed in *Note 22*. However, I was not provided with sufficient and appropriate audit evidence to substantiate the existence, completeness and accuracy of this payable balance. As a result, I was unable to determine whether any material adjustments to the trade and other payables balance at 31 December 2020 and any related impact on the loss for the year in the Company's and Group's financial statements were required.

Deferred Revenue Liability and Deferred Dealer Discount Asset

The deferred revenue liability balance of K27.7 million is disclosed in *Note 13* and deferred dealer discount asset of K3.3 million included in prepayments is disclosed in *Note 9*. During my review, I noted that sufficient and appropriate audit evidence was not provided for me to substantiate the existence, completeness and accuracy of the balances. As a result, I was unable to determine whether any material adjustments to the recorded liability and asset balances as at 31 December 2020 and the revenue and resulting loss for the year in the Company's and Group's financial statements were required.

Business Reorganisation

During the financial year ended 31 December 2018, the Company and a related party - Telikom PNG Limited, entered into an agreement that transferred the operations of the 4G telecommunications network to the Company. An assessment of the application of *IFRS 3 Business Combinations* was not performed by the Group in the previous financial year to determine the carrying values of assets and liabilities to be recognised at the transaction date. As a result, I was unable to determine whether adjustments might have been necessary in respect of the related assets and liabilities balances at 31 December 2019 and 31 December 2020 and revenue, expenses and the resulting loss reported for the year in the Company's and the Group's financial statements.

Subsidiary Company Disclaimer

The component auditor of subsidiary company, Bemobile Solomon Island Limited, issued a disclaimer of opinion in their reporting to me on the financial statements of that entity. As a result, I was unable to determine whether any material adjustments might have been necessary in respect of the balances recognised at 31 December 2020, and the revenue, expenses and related loss and cash flows for the year reported in the Group's financial statements.

Income Tax

I have not been provided with current and deferred tax calculations for the 31 December 2020 financial year for the Company. In addition, the matters detailed above may impact on the financial performance of the Company and Group. Accordingly, the basis for the calculation of the income tax positions and deferred tax balances may not be accurate. As a result, I was unable to determine the appropriateness of the income tax balances and related disclosures in the financial statements of the Company and the Group.

Capital Commitments

Capital commitments of the Company and Group of K16.9 million as at 31 December 2020 are ongoing for expansion of network assets as disclosed in *Note 21*. I was not provided with sufficient and appropriate audit evidence to substantiate the existence, completeness and accuracy of the balances. As a result, I was unable to determine whether the disclosure of capital commitments is adequate.”

68A.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 2018 and 2019 were issued on 30 September 2021 while the 2020 report on 21 February 2022. The reports contained similar observations, hence, only 2020 report is reproduced.

Preparation of Financial Statements

The Company's and Group's financial statements were not prepared and audited in accordance with *Section 179* of the *Companies Act 1997*. Being one of the State-owned companies and with the going concern issues noted with other qualifications resulting in a disclaimer of opinion, I am concerned on the ability of the management and those charged with governance whether appropriate resource, skills or knowledge were deployed to run the affairs of the Company and the Group.

Reconciliation Process

During the course of the audit, I experienced delays in obtaining key reconciliations and supporting documentations. In addition, the component auditor for Bemobile Solomon Islands identified 37 audit adjustments arising from their audit procedures. The volume of adjustments is indicative of a lack of timely and accurate transaction processing, general reconciliations and reporting.

The lack of timely processing, reconciliation and reporting can result in:

- Inaccurate information being provided to management and Directors which can have impacts on their ability to adequately monitor the financial position and performance; and
- Erroneous or fraudulent transactions may not be identified in a timely manner.

I recommended the Company to make sure a process should be implemented to ensure there is adequate process for completing monthly reconciliations in a timely manner and these reconciliations should be reviewed by an independent person.

Reconciliations of Related Party Balances

I noted that there was no formal monthly process to confirm intercompany balances with related parties that resulted in differences between Bemobile ledger balance and the related party trial balance.

I recommended that management should ensure all other related party balances are reconciled and confirmed by the counterparty on a monthly basis to ensure balances are complete and accurate and all reconciling items investigated and addressed as part of the reconciliation process. Once reconciliations are completed, an independent and robust review, including analysis of supporting documentation be performed.

Bank Reconciliations Process

I noted the following issues arising during my review on the bank accounts:

- Bank confirmation of a BSP bank account with a balance of K18,784 was not accounted for in the general ledger and no monthly bank reconciliations were performed; and
- General Ledger (GL) account 1-1180 (Cheques in Transit) and 1-1210 (Electronic Clearing Account) with balances of K7,300 and K344 respectively, do not form part of bank reconciling items. Yet these were accounts used to reconcile the bank accounts.

Whilst the issues noted are below my overall materiality threshold, the accurate and timely completion of bank reconciliations is a fundamental control activity. Weaknesses in this area can lead to erroneous or fraudulent transactions not identified in a timely manner.

I recommended the management to ensure that reconciliations are completed for all cash related accounts in a timely manner and reviewed by a finance team member independent to the preparer.

Fixed Asset Verification

The Company has not performed a fixed assets verification exercise in recent financial years. Reported fixed assets balance includes assets which may no longer exist. Given the diverse asset base both in nature and geographical location.

I recommended management to carry out a physical asset verification exercise.

Revenue Assurance (RA) Reconciliations

I noted that there was no proper level of review of revenue assurance reconciliations established and the review process performed on the internal controls covered by revenue assurance (RA) is not clearly evident on the reconciliation examined.

Revenue assurance is the application of a process or software solution that enables a communications service provider (CSP) to accurately capture revenue for all services rendered. Instead of correcting errors after they occur, or not detecting and correcting them at all, revenue assurance enables the CSP to examine and plug dozens of actual or potential leakage points throughout the network and customer-facing systems, and to correct data before it reaches the billing system. I understand that the internal control reports are maintained in a shared folder, which is restricted to the Chief Financial Controller's access for their desktop review.

I recommended the management to establish a formal review process over these internal controls and undertake on a timely basis to ensure that any internal control deficiencies identified are resolved in a timely manner.

Foreign Contractors Withholding Tax (FCWT)

The Company continues to recognize in its books FCWT amounting to K1.91 million from the services performed by one of its foreign contractors in 2012. While the balance is historically supported by valid invoices issued by the foreign contractor, the corresponding FCWT amount is not yet remitted to IRC. In addition, I noted a variance of K1.2 million between the client's provision and my independent computation of what the provision should be. This is non-compliance to *Income Tax Act* and may attract penalties including additional tax being imposed by way of penalty at a rate of 20% per annum on the amount remaining unpaid.

Aged Stock Valuation Report

The current system is unable to generate an aged stock valuation report. I also noted the lack of Company policy for inventory provisioning. While the risk of obsolescence for these stocks (handsets, prepaid cards and accessories) are low since these items are regularly turned over and periodic stock count is performed, maintaining an aged stock valuation report is still relevant and would assist the Company to effectively monitor its stock movement.

Information Technology General Controls (ITGC) Deficiencies

I noted the following matters in relation to the Information Technology General Controls (ITGC) environment:

- a) Regular reviews of user access rights were not being performed to ensure that staff's rights within the systems are based on their specific roles. Lack of a periodic review of user access rights increases the risk that users were granted inappropriate access to critical or confidential information. In addition, this may lead to users having logical access to modules resulting to incompatible functions;
- b) Periodic reviews of administrator / super-user accounts' activities were not performed. Failure to monitor and periodically review activities of super-users or technically privileged accounts increases the exposure from unauthorized activities and transactions performed by these accounts or bypass of system-enforced controls;
- c) Administrator roles were granted to third party users with no formal monitoring controls in place over these user-accounts. Furthermore, I noted that the granted third party users require access to the Virtual Private Network (VPN). Though the access is active, the third party users could not remotely access the account;
- d) Currently, there are no formal process in place for periodic data recovery testing to ensure that backups taken are recoverable and not corrupted. No failover testing was carried out in 2020 to test redundancy capabilities for business continuity in the event of disaster. Non-performance back-up restoration testing may increase the risk of non-reusability of back-up data which may lead to losses of production data and impact financial statements when a data corruption occurs;

- e) There are currently no password policies in place to define and enforce password parameters for the relevant systems in place. Password strength and complexity requirements not set in accordance with best practice increases the risk of weak passwords being compromised by brute force attacks; and
- f) I noted instances where access to terminated individuals had not been removed on a timely basis. Weaknesses in the control over timely termination of access rights may expose the organization to the risk of unauthorized transactions or activities initiated and processed using the accounts of separated users.

68A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the accounts and records and the examination of the Company's financial statements for the year ended 31 December 2021 was in progress.

68A.1 BEMOBILE (SOLOMON ISLANDS) LIMITED (A subsidiary of Bemobile Limited)

68A.1.1 INTRODUCTION

68A.1.1.1 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.

68A.1.1.2 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.

68A.1.2 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, 2019, 2020 and 2021 were in progress.

69. LIVESTOCK DEVELOPMENT CORPORATION LIMITED

69.1 INTRODUCTION

69.1.1 Legislation

The Livestock Development Corporation Limited was incorporated under the *Companies Act*. The share capital is wholly owned by the National Government.

69.1.2 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.

69.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the years ended 31 December 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 had been completed. The audit reports were being finalised and are expected to be issued shortly.

The Corporation had not submitted its financial statements for the years ended 31 December 2019, 2020 and 2021 for my inspection and audit.

70. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED

70.1 INTRODUCTION

70.1.1 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.

70.1.2 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.

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 financial statements of the Company for the years ended 31 December 2017 and 2018 were issued on 14 September 2021 and 17 March 2022 respectively. The reports did not contain any qualification. However, the reports contained similar Emphasis of Matter, hence, only the 2018 report is reproduced.

“EMPHASIS OF MATTER

Without qualifying my report, I wish to bring to the attention of the shareholders the following matter:

Valuation Uncertainty

I draw attention to *Note 25* of the financial statements, which describes the material uncertainty that exists in relation to the impact of COVID-19 on the valuation of unquoted investments at 31 December 2018 which has the potential to have an adverse impact on these investments and the precise extent of that impact is still not evident at the time of my report. However, my opinion is not modified in this respect.”

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 2019 was in progress.

The Company had not submitted its financial statements for the years ended 31 December 2020 and 2021 for my inspection and audit.

71. MOTOR VEHICLES INSURANCE LIMITED

71.1 INTRODUCTION

71.1.1 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.

71.1.2 Subsidiaries of the Company

The subsidiaries of Motor Vehicles Insurance Limited are Pacific MMI Insurance Limited and Pacific Re Limited. Comments in relation to these subsidiaries are contained in paragraphs 71A and 71B of this Report respectively.

71.2 AUDIT OBSERVATIONS

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 2020 was issued on 28 September 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 Motor Vehicles Insurance Limited for the year ended 31 December 2020:
 - (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

Impairment of Assets

As disclosed in *Note 12* to the financial statements, the Company had investments in subsidiaries, Pacific MMI Insurance Limited and Pacific Re Limited at a total value of K90.17 million as at 31 December 2020 (2019: K84.71 million).

In accordance with *IAS 36, Impairment of Assets*, an entity shall assess at the end of each reporting period whether there exists any indication that an asset may be impaired. If such indication exists, the company shall estimate recoverable amount of the asset and any impairment gain or loss to appropriately recognize in profit and loss.

As part of my audit procedures, I assessed for presence of impairment indicators in respect of the Company's investments in subsidiaries at 31 December 2020, and requested the Company determine the recoverable amount at that time. However, the Company was unable to determine the recoverable amount as at 31 December 2020. As such, I was unable to obtain sufficient appropriate audit evidence, by alternative means, to assess the recoverable amount of the Company's investments in subsidiaries at 31 December 2020. Consequently, I was unable to determine whether any adjustment to the carrying amount of investments in subsidiaries was necessary."

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 2021 was in progress.

71A. PACIFIC MMI INSURANCE LIMITED **(A subsidiary of Motor Vehicles Insurance Limited)**

71A.1 INTRODUCTION

71A.1.1 Legislation

Pacific MMI Insurance Limited was incorporated on 10 July 1998 under the *Companies Act*.

The Company was established in 1998, through a joint venture between Motor Vehicles Insurance Limited (the Motor Vehicles Insurance Trust) and Allianz New Zealand Limited. The Joint Venture took control of the insurance portfolio previously operated by the Niugini Insurance Corporation. In 2009, Motor Vehicles Insurance Limited became the sole shareholder of Pacific MMI Insurance Limited. Pacific MMI Insurance Limited is now a 100% PNG owned company.

The Company started its operations in 1998 providing both general and life insurance to the market. Pacific MMI Insurance Limited is a registered general insurance company under the *Insurance Act 1995*, and a registered life insurance company under the *Life Insurance Act 2000*. The Company is also a member of the PNG Insurance Council Inc., and a member of the Joint Member Committee (JMC) Life Insurance Inc.

71A.1.2 Objective of the Company

To provide the market with peace of mind, personal service, secure insurance products, competitive options and local Papua New Guinean expertise.

71A.1.3 Functions of the Company

The Company's main function is to provide a range of personal, commercial and corporate insurance products through selected Insurance Brokers, Business Partners and direct to the Public.

71A.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 2020 and 2021 were in progress.

71B. PACIFIC Re LIMITED **(A subsidiary of Motor Vehicles Insurance Limited)**

71B.1 INTRODUCTION

71B.1.1 Legislation

Pacific Re Limited was incorporated on 30 May 1995 under the *Companies Act*.

The Company was registered on 30 May 1995 under the former name Negliw No. 92 Pty Limited. The name was later changed to Pacific International Reinsurance Corporation Pty Limited, then to Pacific Re Pty Limited, and currently named Pacific Re Limited. The Company was registered by the three former shareholders, American Home Assurance Company, HIH Life Insurance (PNG) Limited and Mitsui Marine and Fine Insurance Co. (PNG) Pty Limited with the intention to provide local reinsurance support to the insurance market. Over the years there had been a number of transfers of shareholdings. The current shareholders of the Company comprise of Motor Vehicle Insurance Limited (MVIL) with 39,959,528 and Alpha Insurance Limited with 1,454,418 shares.

The Company commenced its operations in 1997 providing reinsurance support to the local insurance market. Pacific Re Limited is the only registered reinsurance company operating in Papua New Guinea.

71B.1.2 Objective of the Company

To be a provider that enables the delivery of dynamic quality reinsurance solutions, that offers strong security combined with excellent service to all our business partners, that values team members and enhances shareholder wealth.

71B.1.3 Functions of the Company

The Company's principal activities include providing proportional and non-proportional and facultative and treaty reinsurance with an overall underwriting philosophy of profitable growth. The major classes of business for reinsurance support include:

- Property;
- Motor vehicle;
- Casualty;
- Accidents; and
- Marine.

71B.2 AUDIT OBSERVATIONS

71B.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 2020 was issued on 25 May 2022. The report did not contain any qualification.

71B.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 2021 was in progress.

72. NATIONAL AIRPORTS CORPORATION LIMITED

72.1 INTRODUCTION

72.1.1 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.

72.1.2 Functions of the Corporation

The functions of the National Airports Corporation Limited are derived from *Section 132* of the *Civil Aviation Act*.

72.1.3 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 72A and 72B of this Report.

72.2 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 2020 had been substantially completed.

The Company had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

72A. AIRPORT CITY DEVELOPMENT LIMITED (A Subsidiary of National Airports Corporation Limited)

72A.1 INTRODUCTION

72A.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.

72A.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.

72A.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 Company for the year ended 31 December 2019 had been substantially completed.

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 2020 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

72B. AIRPORTS INVESTMENTS LIMITED **(A subsidiary of National Airports Corporation Limited)**

72B.1 INTRODUCTION

72B.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.

72B.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.

72B.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.

72B.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 had been substantially completed.

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 2020 was in progress.

The Company had not submitted its financial statements for the year ended 31 December 2021 for my inspection and audit.

73. NCD WATER AND SEWERAGE LIMITED (Trading as Eda Ranu)

73.1 INTRODUCTION

73.1.1 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 National Capital District Commission.

73.1.2 Functions of the Company

The principal functions of the Company are to provide the supply of treated water, and the treatment and disposal of sewerage within the National Capital District.

73.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

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 2019 was issued on 6 October 2021. The report contained a Disclaimer of Opinion.

“DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs 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 NCD Water and Sewerage Limited, for the year ended 31 December 2019.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances and Corresponding Amounts

My report on the financial statements of the Company for the year ended 31 December 2018 was a disclaimer of opinion due to my inability to obtain sufficient and appropriate audit evidence on the completeness, existence and accuracy of the Company's account balances reported in the financial statements including, trade and other receivables of K58.03 million and related provisions for impairment of K8.84 million; consumable inventories of K5.89 million; property, plant and equipment of K86.93 million not recognised in the 2018 financial statements; Taxations - provision for income tax of K5.07 million, deferred tax assets of K3.83 million, deferred tax liabilities of K0.34 million, and income tax expenses of K1.28 million; and operating revenue of K116.84 million. I was unable to perform alternative procedures over these opening balances due to a continued lack of appropriate supporting documentation. Since the opening balances enter into the determination of the financial position at 31 December 2019 and the results of operations, equity movements and cash flows of the Company for the year ended 31 December 2019, any adjustments necessary on such opening balances would have a consequential effect on the year end balances. Accordingly, I was unable to determine whether any such adjustments might be necessary for the year ended 31 December 2019, and corresponding figures for the year ended 31 December 2018.

Trade Receivables and related Provisions for Impairment

Note 13 to the financial statements of NCD Water & Sewerage Limited (the Company) disclosed trade receivables at K85.77 million (2018: K58.03 million) and related provisions for impairment balances at K76.68 million (2018: K8.84 million).

The trade receivables balance at 31 December 2019 included outstanding balance of K52.09 million which related to transactions recorded in prior financial years when revenue transactions were being performed by a third-party contractor, under a 'build-operate-transfer' arrangement, of which I was unable to obtain third-party confirmation of the revenue billed by customer, cash received by customer, confirmation of cash received in bank (related to billing by customer) and a report on controls in place at the service organisation. In addition, alternative documentary evidence was not available to assess the completeness, existence and accuracy of the K52.09 million of trade receivables recorded in financial years prior to 31 December 2019 and yet to be collected.

During the financial year ended 31 December 2019, the Company estimated expected credit losses for trade receivables utilising historical transaction data provided by the third-party contractor to calculate the provisions for impairment of K76.68 million as at 31 December 2019. This resulted in a significant increase in the provision for impairment and related impairment expense in the 2019 financial year, including impairment expense recorded in respect of K52.09 million of outstanding trade receivables related to prior financial years. Documentary evidence was not available for me to assess the appropriateness of the timing as to whether this provision for impairment should be for the 31 December 2019 result or for the prior years.

As a result, I was unable to gather sufficient appropriate audit evidence regarding trade receivables and related provision for impairment at 31 December 2019. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2019 and corresponding figures for the year ended 31 December 2018.

Consumable Inventories

Note 14 to the financial statements of the Company has disclosed consumable inventories balance of K6.51 million at 31 December 2019 (2018: K5.89 million). I did not observe the counting of the physical consumable inventories at the beginning and end of the year and so, I was not able to satisfy myself by alternative means concerning consumable inventory quantities held at 31 December 2019. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2019 and for the corresponding period.

Property, Plant and Equipment

As set out in *Note 16* to the financial statements, the Company disclosed property, plant and equipment of K86.69 million at 31 December 2019 and K86.93 million at 31 December 2018. Included in the property, plant and equipment is land and buildings stated as being at fair value of K33.58 million at 31 December 2019 and K33.84 million at 31 December 2018. The Company has an accounting policy of carrying land and buildings at fair value. As at 31 December 2019 and 31 December 2018, the Management had not undertaken an internal or external valuation process to assess the fair value of the land and buildings. The last independent external valuation obtained by the Company was in 2013. In the absence of a current external or internal valuation, I was unable to obtain sufficient appropriate audit evidence on the accuracy and valuation of land and buildings as at 31 December 2019. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2019 and for the corresponding period.

Property, Plant and Equipment not Recognised in the Financial Statements

In 1997, the Company entered into an agreement with Malaysian Consortium PNG Water Limited (JCKRTA) to build, operate and transfer (BOT) the Mt. Eriama treatment plant. This agreement represented a service concession arrangement in accordance with *International Financial Reporting Interpretations Committee (IFRIC) 12, Service Concession Arrangements*. The Company has not accounted for the arrangement as a service concession since inception. Therefore, any assets or liabilities that would have been classically recorded as part of the service concession arrangement were not being done. I was not provided with sufficient appropriate audit evidence to determine what amounts should have been recorded in the Company's books.

Eda Ranu took ownership of Mt. Eriama treatment plant & other items of Property, Plant & Equipment in October 2018, at the end of the *build-operate-transfer* agreement with JCKRTA. However, these assets were not recorded in the Company's books as at 31 December 2019 and 31 December 2018, as the Company is still in the process of performing a full independent external valuation for the assets transferred and determining the appropriate accounting treatment of the assets.

In addition, the Company took ownership of the assets of the Port Moresby Sewerage System Upgrade Project (POMSSUP) in March 2019 from General Business Trust (GBT), a Trust established and owned by the State under *Section 31 of the Independent Public Business Corporation Act, 2002 (as amended)*. The POMSSUP assets met the criteria of a non-current asset in accordance with *IAS 16, Property, Plant and Equipment* during the financial year. However, these assets were not recorded in the Company's books as at 31 December 2019, as the Company is still in the process of performing a full independent external valuation to determine the appropriate accounting treatment of the assets.

As a result, the property, plant and equipment balance for the Company was incomplete in the 2019 financial statements with corresponding misstatements of equity, depreciation and tax balances accumulating. I was not provided with sufficient and appropriate supporting documentations and so, I was unable to perform alternative procedures to determine the value of unrecognised property, plant and equipment as at 31 December 2019.

As a result of the above deficiencies noted, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2019 and 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2019 and for the corresponding period.

Taxation

Note 10 to the financial statements and the statement of financial position of the Company as at 31 December 2019 reported Income tax (benefit)/expense of (K6.87 million) (2018: K1.28 million), Provision for income tax of K18.94 million (2018: K5.07 million), Deferred tax Asset of K25.69 million (2018: K3.83 million), and Deferred tax liability of K1.46 million (2018: K0.34 million).

I was unable to obtain sufficient and appropriate audit evidence over the completeness, existence and accuracy of related tax impacts of the transactions and balances due to the absence of appropriate records or calculations of its income tax position. In addition, management did not prepare an assessment of the probability of the utilisation of the deferred tax asset.

Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2019 and for the corresponding period.

EMPHASIS OF MATTERS

Without qualifying, I wish to draw attention of the shareholders on the following matters:

Basis for Preparation of the Financial Report other than as a Going Concern

Note 2.1 of the financial statements disclosed that the financial statements have not been prepared on a going concern basis because the *National Capital District Water and Sewerage Act 1996*, which governs the operation of the Company was repealed on 3 November 2020 through the *National Water Supply and Sanitation (Amendment) Act 2020*.

In accordance with the *National Water Supply and Sanitation (Amendment) Act 2020*, Eda Ranu ceased to exist from 2 November 2020 and its assets and liabilities were amalgamated with Water PNG Limited. Therefore, in preparing the financial statements on an alternative basis, the Directors have continued to apply the requirement of the *International Financial Reporting Standards (IFRS)* taking into account that the Company will not continue as a going concern from 2 November 2020.

No adjustment to assets or liabilities carrying values were considered necessary as a result of the change in presentation and no provision has been made at 31 December 2019 in respect of wind up and merger costs to be incurred.

Other Legal and Regulatory Requirements

The Papua New Guinea *Companies Act 1997* requires that in carrying out my audit, I consider and report to you on the following matters. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of my report, I conclude that:

- a) Based on my examination of the Company's accounting records, the records were not properly maintained in accordance with the *International Financial Reporting Standards* and the Papua New Guinea *Companies Act 1997*. In addition, I was not able to obtain the necessary information and explanations to provide an audit opinion on the financial statements; and
- b) In contravention of the Papua New Guinea *Companies Act 1997*, the Company failed to submit its duly signed financial statements to the Registrar, within five months of the balance date, unless the Registrar extended this period. No such extension was provided to the Company."

73.2.2 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 6 October 2021. The report contained the following observations:

Significant Increases in Aging of Trade Receivables

I noted from testing of trade receivables that the Company has been experiencing significant increases in trade receivables over the past three years (2016-2018) and into the 2019 financial year. While this has been the situation, trade debtors *aged 120+ days* were consistently above 50% of the total trade receivables balance reported for the respective financial years.

Due to the growing aged trade debtors, there has been significant *expected credit losses* "ECL" that were recognized in the 2019 financial year after the Company adopted an improved *ECL* model to estimate expected credit losses from trade receivables. As a result, *Impairment provisions* recognized amounted to K76.7 million which represented 89% of the total trade receivables reported for the financial year ended 31 December 2019.

I brought to the attention of management that there is a risk of significant financial losses and liquidity issues with a trend that aged invoices/debtors are constantly growing annually and remain uncollected. Accordingly, I recommended the Company to put in place a clear and robust debt collection policy to ensure the aging trade receivables are reduced and losses are minimised.

Management agreed to my observation and assured that the following significant measures have been initiated:

- *A debt recovery team under GMCS has been formed solely to focus on all outstanding payments;*
- *Frequent awareness and advertisement have been made to increase the outstanding payments; and*
- *Disconnections (already in place) and legal actions will be taken for those with long outstanding payments.*

Inappropriate Recording of Revenue and Trade Receivable Balances

My testing of revenue transaction recording revealed that the Company has been recording revenue on a bulk sale basis as opposed to recording on a customer meter basis. Further, the Company did not have records of the revenues billed per customer meter. Over the years up to October 2018, the Company had outsourced its billing and collection functions to a third party through an arrangement termed “*build-own-transfer*” (*BOT*). As such, Eda Ranu was not privy to or not in a position to know the details of the billing and collection processes undertaken by the third-party. Also, the Company could not obtain sufficient information on trade receivables hence, was unable to prove the accuracy and correctness of the trade receivables balance or assess their recoverability.

After the termination of the *BOT* arrangement, I noted that the Company continued to record transactions on a bulk sale basis. This resulted in the Company being not able to provide the revenue billed per customer meter basis.

On 1 January 2018, *International Financial Reporting Standard (IFRS) 15, Revenue Recognition from Contracts with Customers* came into effect. The new standard establishes a *new 5 step model* for revenue recognition from contract with customers. However, the Company did not perform an impact assessment for the revenues generated during the first 10 months, that is, from 1 January to 31 October 2018 when the *BOT* arrangement ended.

I advised the management that there is a high risk of material misstatement over the completeness, existence and accuracy of the revenue and trade receivables balances. Hence, I recommended the Company to address the glaring issue immediately.

Management responded and stated, “*We have access to all revenue, billing and collection data under Pronto system.*”

Inappropriate Recording of Accruals

My review of the Company's accrual accounts identified that the Company included K4.59 million worth of accruals for transactions related to the financial years 2006 to 2018. Further test to ensure occurrence of the transactions revealed that the amount was linked to regulatory fee charges from the Department of Environment and Conservation based on estimated water usage. However, I sighted no invoices from the Department of Environment and Conservation nor payments being made by the Company during the period (2016-2018) or during the year under review. Such being the situation, it appears that the Company has no present obligation to make any payment for the regulatory fee charges to the Department of Environment and Conservation.

Accordingly, I cautioned management of potential risk that may materially misstate the existence and accuracy of the accrued expenses, taken-into consideration that no invoices were being issued by the Department of Environment and Conservation or lacked evidence of payments being made by Eda Ranu to recognise the dues as genuine. Therefore, I advised Eda Ranu to seek a better understanding of the nature of the transactions (charges) from the Department of Environment and Conservation and request for invoices for payment as appropriate. I also recommended that the Company addresses the glaring issue as soon as possible.

Management replied, "*A consulting firm was appointed to address the issue. Work in progress.*"

Inaccurate Calculation of Tax Balances

Eda Ranu is liable to pay income taxes and lodge income tax returns. I identified from my review that there were issues with a number of account balances and transactions which might result in inaccurate calculation of income tax payables. Furthermore, the Company has assets being transferred to it at the end of the *BOT* agreement, which the transferred assets are subject to income taxes. However, for the year under review these transferred assets have been omitted from the Company's Fixed Asset Register (FAR) hence, contributes to inaccurate calculation of the Company's income tax position. I also noted that other transactions and balances that have impacts on the Company's tax calculations include, revenue, trade debtor provisions, other levies and charges and tax penalties.

I informed management that there is a potential exposure to tax penalties for any errors in the calculation of income tax payables. In addition, I advised the management to address the tax issues by engaging an external *Tax Advisor*.

Management replied, "*Work in Progress to address the issues raised by the Auditor-General.*"

Anti-fraud Controls

I identified that the Company's anti-fraud controls require strengthening, taking-into-account its scale of operations and its relative decentralization. In particular, there has been no whistleblower hotline where employees could anonymously report suspected misappropriation and fraud. As such, key financial processes including payroll, procurement and general information technology controls have been susceptible to risk of fraud. I advised management to consider strengthening anti-fraud controls, in particular, establishing a whistle-blower hotline or e-mail address, and arrange internal audits focusing on wide range of issues including specific anti-fraud procedures.

Management responded that work in progress to address the issue.

Lack of Effective Communication for User Access Management Process

The IT department of the Company have been observed to work in silos as memos and emails were rarely used to authorize the *creation, modification and deletion* of user profiles. My review noted the following issues resulting from effective and formal processes *not* being established:

- Seven (7) of the fifty-nine (59) active users on Eda Ranu's *Pronto billing system* were not timely removed from the business application as they were either terminated or resigned. Hence, their accounts were still active at the time of my review;
- One (1) of the twenty-six (26) active users given administrative rights on *TechOne* was not timely removed from the business application and was still active at the time of my review; and
- There was no formal review in place or no exercise was undertaken during the period under review to identify idle and inactive accounts on the network and business applications.

I cautioned management that creation and modification of deletion or disabling of user profiles may not be properly authorized and accounted for in the absence of effective communication processes. Hence, profile management controls may not be implemented consistently or adequately. I also warned that system profiles of users who left the organization may remain in the system and be utilized to perform inappropriate and unauthorized transactions in the system where/if memos are received late. Further, where user activities are not monitored, attempts to gain unauthorized access or activity may go undetected, which could have adverse impacts on the integrity and confidentiality of data resident in the system.

Accordingly, I recommended management to consider amending the *IT Policy* by incorporating detailed user access management procedures and assigning clear responsibilities to the stakeholders involved so that tasks are clearly defined for their adherence and performing duties accordingly.

I also stressed that the user access management processes must link to the human resources processes to verify the users' identity as well as to ensure that they are entitled to the services they request for. Active user profiles belong to staff who left should be immediately deleted and disabled to ensure that user accounts are added, modified and deleted in a timely manner to reduce the risk of unauthorized and inappropriate access to information systems related to financial reporting.

Management responded, "A new ICT Policy for WPNG Limited currently work in progress will capture this."

No Formal Change Management Policy and Effective Procedure in Place

I noted from review related to "Change Management Policy" that certain processes on "change management" such as keeping record of the changes performed were not consistently followed and expected documentation was not consistently being retained. As a result, following problems were identified during my testing:

- Numerous minor changes were being made within the network and applications of the Company. However, no exact number of changes performed was available due to no formal or consistently followed procedures were in place for ICT normal and minor change management;
- Changes were performed in the Eda Ranu's production environment. This was identified through conversations with ICT and evidencing a 'Eda Ranu Test account' in the production environment of Eda Ranu (the Company);
- The Pronto system implemented in November 2018 had no proper documentation due to the system went live in a very short period of time with no proper training of the users;
- There was no evidence of sign-off between management and the vendor to confirm that the change was implemented successfully; and
- Management reviews and approvals were not formally captured prior to changes being implemented into the production environment of Eda Ranu.

I notified management that where user activities are not monitored, attempts to gain unauthorized access or unauthorized activities may go undetected, which could have adverse impacts on the integrity and confidentiality of data resident in the system.

I therefore, recommended the management to design a robust and formal *Change Management* procedures to ensure that they are adhered to each time a change is made to any system including applications, database, cybersecurity or the IT environment (e.g. Network) of Eda Ranu.

Management responded, "The new ICT Policy currently work in progress will capture this."

Lack of Monitoring Process for the Existing Infrastructure and Privileged user Access

No “tools” were in use to effectively monitor the group network capacity, utilization, performance and security. The IT department currently relies and uses “*Command Prompt PING*” daily to ensure all networks, application and servers are running. In addition, there was no process in place or a resource assigned to monitor the use of privileged profiles or their equivalents on the key business applications and the network. Further, regular reviews have not been performed on the user access lists. As a result, I noted the following anomalies on the network:

- Five (5) powerful system level IDs with Domain Administrative Properties were on the Active Directory (AD) at the time of my review. Two (2) of these were administrative accounts allocated to the Internal Auditor and the Accounting Manager which were not necessary according to their job responsibilities; and
- Two (2) Administrator privileged Pronto user accounts, “Eda Ranu Administrator” and "Pronto Administrator" had duplicated access rights. However, these privileged user accounts had no monitoring controls for monitoring or reviewing their activities.

I stressed that management should establish procedures to regularly monitor activities performed using profiles with elevated privileges. Review evidence should be signed off and retained for future reference. Management may consider activating system audit trails where possible to enable review of user activities. The audit trails can be configured to log specific “high risk” activities to avoid excessive consumption of system resources like storage space. Adverse activities may then be timely detected and followed upon before losses occur to Eda Ranu.

I alerted management that where network and user security activity is not actively monitored, attempts to gain unauthorized access or poor network activity may go undetected resulting in data exposure and malicious unauthorized network traffic data changes. I also warned that in some cases where data has been compromised becomes useless.

Therefore, I advised management to consider acquiring a “*network monitoring tool*” which can be used to effectively monitor the network and detect any anomalies that may cause problems proactively. I also informed management to identify which user or system actions and events should trigger an alert for monitoring purposes. Further, I counselled the management to maintain a formal list of users and management who should be notified of breaching the system configured threshold.

Management responded, “*Eda Ranu Network will be migrated and integrated into WPNG Limited Network and the Network Tool currently used by WPNG Limited will be used for network monitoring. The full integration of former Eda Ranu (ER) and WPNG will take a while. Install a monitoring tool on the former ER network.*”

Weak Password Security Settings on the Network and Key Business Systems

My review of actual password settings on the Active Directory (AD) of the Company and key business applications against the industry standards revealed that the password settings were configured in line with the industry standards except for the following configurations on the AD and key business applications of Pronto and TechOne:

- *Concurrent logons* were *allowed* on the AD and Pronto as opposed to the recommended best practice setting which *does not allow concurrent logons*;
- Password length on the AD, Pronto and TechOne were set between 6-7 characters as opposed to the recommended best practice of eight and above characters;
- Password history were set between 0 and 2 for the AD, Pronto and TechOne however, according to recommended best practice the password history should be at least 10 – 12;
- Login attempts were set to default settings of zero as opposed to the recommended best practice to minimum of 3 logon attempts; and
- Password complexity requirements were set to accept any character as opposed to the recommended best practice that a password should require both high/low case, 8 characters long, alphanumeric and should include special characters for TechOne.

I brought to management's attention that there is need to ensure that robust password controls are implemented on the host operating system and the key business application as per best practice. Security frameworks like the *Generally Accepted Information Security Practice (GAISP)* and *ISO 27000 Suite* among others may be applied to align the Eda Ranu framework to best practices. The policies and rules are especially useful in larger and more complex organizations where those defining and approving the expected levels of control are segregated from those implementing the controls. Policies for information security can be issued in a single "information security policy" document or as a set of individual but related documents. If any of the information security policies are distributed outside of the organization, care must be taken not to disclose confidential information. Some organizations use other terms for policy documents, such as "Standards", "Directives" or "Rules".

Management responded, "*This is factored into the new WPNG ICT Policy currently work in progress.*"

Absence of Formal User Access Matrix for Key Business Systems

My review revealed that there was no "*user access matrix*" to provide a basis for the allocation of Pronto and TechOne systems user access rights nor evidence of authorization of the documented access matrix in the form of sign off by management. In addition, there was no evidence of reviews being conducted periodically to identify application user accounts with access rights that could cause conflict of duty segregations including users with excessive rights and permissions.

I notified the management that absence of a documented access matrix may result in an inappropriate and inconsistent allocation of access privileges. In addition, copying existing user profiles may result in users inheriting excessive or limited rights that may compromise security or hinder effective use of the application respectively.

Hence, I advised management that there is a need to design and review the user access matrix periodically to ensure it is consistent with job functions. Role and permission matrix is important as it serves as a reference point for checks and balances within the system, since individuals are prevented from performing actions outside their roles and authorities. Roles are identified using organograms, job descriptions, and user guides, to name a few.

I also recommended that conflicting duties and areas of responsibility should be segregated in the system to reduce opportunities for unauthorized or unintentional modification or misuse of the organization's assets. Care should be taken that no single person can access, modify or use assets without authorization or detection. The initiation of an event should be separated from its authorization. The possibility of collusion should be considered in designing the controls. Organizations may find segregation of duties difficult to achieve, but the principle should be applied as far as is possible and practicable. Whenever it is difficult to segregate duties, other controls such as monitoring of activities, audit trails and management supervision should be considered. Furthermore, routine reviews of access privileges should be done to ensure inappropriate privileges are detected in time.

Management responded, "*Work in progress. Still on target.*"

Inadequate IT Policies and Procedures

An IT security policy identifies rules and procedures for all individuals accessing and using an organization's IT assets and resources. My review noted that Company's *Information and Communication Technology (ICT)* policy document has been in place. However, it was last reviewed in 2014, and it does not capture and fully specify the key areas including; Asset Management, Human Resource Security, Business Continuity Management, Compliance Management, Security Management, Cyber Security, and Information System acquisition, development and maintenance.

Further, I noted the following issues with regard to the training of users on security policies and acceptable terms of use:

- The IT policy has not been communicated or made available across the organization; and
- No ICT security reminders were periodically sent to users during the period under review nor training on the existing ICT policies were provided to the existing users during the year under review. Only a brief verbal orientation by ICT representative on these requirements has been part of the training for newly recruited employees.

I cautioned the management that without a clear policy on information security, computing activities can be done in an inadequate and inconsistent manner thus, can compromise the confidentiality, integrity and availability of computer systems and data thereof. Also, users may unknowingly violate acceptable user guidelines and expose the organization's information assets to security threats because of ignorance of the existing IT Security Policy. Eda Ranu may also fail to find basis for disciplinary action in the event of a violation.

Therefore, I advised management to consider revising the Information Communication Technology document and update it to ensure that it covers all the specific areas in the IT environment. Security frameworks like the *Generally Accepted Information Security Practice (GAISP)* and *ISO/IEC 27000 Suite* among others may be applied to align the ICT framework to best practices. The updated policy should be approved by executive management. And going forward, these policies and procedures should be reviewed at least annually by the ICT management or whenever there is a change, whichever is sooner. Additionally, all policies and procedures should be readily available and regularly communicated to all relevant staff to ensure that users are aware of their security responsibilities, common and emerging security issues. This should include new and existing employees being periodically trained on acceptable IT Security guidelines, for example, through conducting workshops on Information Security. The information security awareness program should aim to make employees and where relevant contractors aware of their responsibilities for information security and the means by which those responsibilities are discharged. The awareness program should include a number of awareness-raising activities such as campaigns (e.g. an “information security day”) and issuance of booklets or newsletters.

Management responded, *“The Water PNG Limited ICT Policy is being reviewed and work in progress. Still on target. Accompanying procedures will be created once the policies are approved.”*

Improvement needed for Physical Security

I identified following weaknesses in the server room environment (Twin Merlion Business Centre, Section 122, Allotment 10, Cobon Street, Geauta Drive):

- The server room ceiling was not partitioned from the IT office and workstations. Also, there is a glass window that can be easily broken into;
- There was no review of physical access control system logs or the tag system logs performed during the period under review;
- There was no form of access monitoring system in place for the server room. This included CCTV setup and door access systems (manual lock in place). Although there has been a logbook, it has not been in use for over 2 years. It has been a practice that the only way of monitoring was to present at the time of visitors/vendors. Currently, the only two people whom have access to the server room are the IT Manager and the CEO; and

- Smoke detectors and fire extinguishers have not been installed at the time of my review.

In addition, there was no form of access monitoring system including logbooks (staff and visitors) and door access systems (manual lock) in place to the server room. Currently, the only way of monitoring is done by one installed CCTV. However, this is not supported by the UPS in the event CCTV is affected by power outage. Also, there was no evidence of periodic management review of the physical access control system logs or the tag system logs to the floor.

I notified the management that the IT infrastructure is vulnerable to damage by environmental hazards including but not limited to fire and water. Also, the server room environment is exposed to unauthorized entry and this exposes information assets to theft and abuse among other risks.

Hence, I advised the management that appropriate environmental controls needed to be immediately implemented in the data centre. That is, all the IT equipment needs to be maintained and reviewed on a regular basis to ensure the Company's hardware and software operates effectively in a safe environment. A log book specifically for the logging of all visits by external employees into the server-room should be maintained and reviewed. All visits should be recorded and signed-off by management including any equipment that enters the server room. Additionally, management should consider installing a door access system and a CCTV system in the server room.

Management stated, "*Still work in progress.*"

Lack of Incident and Problem Management Policy and Tool

I noted that Eda Ranu had no policy or procedure that defines the recording of incidents, prioritization of problems, resource allocation, escalation procedures, and review and trend analysis of problems. In addition, there were no signed Service Level Agreements between business and the IT for incidents and problems for which business requires assistance from the IT for resolution. Furthermore, Eda Ranu does not have an IT Helpdesk system to keep track for general issues. As a result, Eda Ranu lacked the ability to effectively define severity levels (either High, Medium, Urgent/Emergency or Low) and escalation procedures for unresolved and open items.

I highlighted that problems that have a bearing on financial reporting may not be timely resolved to allow for process of continuity and ultimately business continuity. Also, there has been no adequate basis for evaluating and enforcing performance service levels in the absence of a signed and binding Service Level Agreement (SLA). Accordingly, I recommended management to have a policy that clearly defines criteria for prioritization of problems encountered to allow for helpdesk personnel to effectively prioritize all problems raised for timely resolution.

I stressed that management should ensure that an SLA that specifies all necessary and required performance service levels is signed by all relevant parties to ensure adequate and timely resolutions of issues affecting the business, and make use of an adequate helpdesk tool so that incidents are resolved timely and all incidents are monitored to ensure minimum disruption to business operations.

Management responded, “*On track to completion date.*”

Improving Eda Ranu’s Resilience through Business Continuity Planning

My review revealed that a formal *Business Continuity Plan (BCP)* has not been documented or tested at Eda Ranu. The BCP describes procedures to recover business operations and outlines arrangements for continuing critical data processing activities (*Disaster Recovery Plan - DRP*) in the event of a disaster or unexpected event at Eda Ranu.

I brought to the management’s attention that without a current and tested BCP to address issues that could affect operations, Eda Ranu may not be able to effectively respond and minimize any disruption to the organization in the event of a disaster, or to effect a recovery on a timely basis. Such situation could expose Eda Ranu to increased financial and operational costs in restoring the organization to normal operating capacity. Also, without a Business Recovery Plan (BCP), the Company may fail to recover critical business operations in the event of an interruption owing to unavailability of processing facilities and reliable data. In the absence of tests to assess the effectiveness of the restoration process and the quality of backup media, recovery procedures may be hampered.

A BCP plan is a business’s last line of defense against risks that cannot be controlled or avoided by other risk management practices. Hence, I recommended Eda Ranu management to develop and formalize a Business Continuity/Recovery Management plan to ensure that business and technology processes can be restored within required timeframes. The plan should be tested at least twice annually. At a minimum, the BCP/BCM plan should include the following elements:

- Emergency response - to facilitate and organize employer and employee actions during workplace emergencies. These involve life safety procedures to protect well-being of personnel (and visitors);
- Business Continuity Plan – to address recovery and continuity of critical business functions require to maintain an acceptable level of operation during an incident;
- Disaster Recovery Plan – to address restoration of business system software, hardware, ICT infrastructure services of Eda Ranu and data during an incident; and
- Contingency Plan – to address specific hazardous issues that require special treatment or processes (e.g. pandemic, workplace violence, etc.).

Management responded, “*Still in track to completion date.*”

Opportunity to Improve *Antivirus Management* on Eda Ranu's Network

Eda Ranu makes use of Kaspersky Endpoint Security 10 for Windows as the Antivirus software for the organization. My review noted that the Active Drive (AD) recognized 650 workstations whilst the antivirus console listing recognized 129 workstations. Through comparison of the console report with the asset list from the AD, I noted the following discrepancies:

- 129 workstations (20% of the Active Directory) were both on the Asset Listing and the antivirus console list. These machines had adequate antivirus agents installed and updated. However, the 521 workstations (80% of the Active Directory) had no antivirus installed and were not recognized by the antivirus console;
- The current Kaspersky license was for 150 machines while the AD had more active machines; and
- Management did not provide the decommissioned machine list and the machines listing extract with detailed information from the AD.

I advised that if machines are not reporting on the antivirus console, malicious activity may go undetected. Also, machines without the most recent DAT files are highly vulnerable to malicious software attacks as the machines will not be protected against new threats contained in updated definitions.

I recommended the management to consider performing an AD clean up to ensure that all active machines on the AD are reporting on the console report for monitoring purposes. Should machines be decommissioned, management should ensure that a validation and clean-up process is implemented for correct reflection of machines which are online and should be monitored thereof.

Management responded, *“The exercise commenced with old non-active machines removed from the AD and validation and clean-up process is work in progress. Status: Completed and on-going review for any changes.”*

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 period from 1 January 2020 to 12 April 2021 was in progress.

The Company merged with Water PNG Limited on 12 April 2021. Therefore, in my next Annual Report, I will report on the audit of the Company for the period ended 12 April 2021 being the last report.

74. PAPUA NEW GUINEA PORTS CORPORATION LIMITED (Formerly PNG Harbours Limited)

74.1 INTRODUCTION

74.1.1 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.

74.1.2 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.

74.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

74.2.1 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 2020 was issued on 29 September 2021. 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 2020;
 - (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 it 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 Relating to the Lae Port (Tidal Basin) Development

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 2020.

Authenticity of Payments made to a Contractor and Valuation of Work in Progress related to Lae Industrial Park Development Project

Note 15(b) 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 an Industrial Real Estate. Out of the loan amount, a total of K133.3 million was drawn between 2017 and 2018 and paid to the contractor engaged for the project. However, I was not provided with sufficient audit evidence including project progressive status report specifying percentage of milestone achieved and instalment payment amount recommended. I applied professional judgement upon inspection of the project site during 2018 audit and noted that the level of work done at the site did not worth the K133.3 million paid to the contractor and recorded in the Company's books as Work in Progress (WIP). Further, I noted again during my 2020 audit that the issue has not been resolved and that the Company was not able to provide sufficient appropriate audit evidence to the WIP valued at K133.3 million.

Consequently, I was unable to comment on the accuracy and completeness of the Work in Progress and associated liabilities disclosed in the financial statements as at 31 December 2020.”

74.2.2 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 2020 was issued on 29 September 2021. The report contained the following significant matters:

Lae Markham River Training and Flood Mitigation – Lae Tidal Basin

In 2017, PNG Ports Corporation entered into a construction contract with China Jiangsu International (PNG) Limited (CJI) to design and build a long-term solution to mitigate and prevent flood threats from the Makharm River into the Lae Tidal Basin area within Portion 832 at a contract value of K41,320,260. During my review of the project, I noted the following issues:

- Up to 2019, a total of K24,792,155 was paid to the contractor representing 60% of the total contract value. The payment did not reflect the amount of work done according to my review;
- Since CJI Limited was established on site for the construction of Lae Industrial Park Development Project, PNG Ports Corporation went ahead and agreed unfavorable payments schedule including 50% advance payment for mobilization without a proper project design;
- PNG Ports Corporation and the contractor consumed significant project time in finalizing the design for the project which resulted in significant delay; and
- In 2019, PNG Ports Corporation management agreed to change the payment schedule again. A transaction that was not favorable to PNG Ports Corporation.

As a result, I was unable to comment on the effectiveness of the controls surrounding the contract awarding process, project management and monitoring process and the certification and approval of payments for a stage of project completion. Consequently, the management of the PNG Ports Corporation has failed to exercise duty of care and due diligence both at the time of procuring, signing and execution of the contract. These issues were raised in my prior years reports but still remains unresolved.

Management responded to my observations as follows:

“The contractor has failed to deliver on time as it experienced technical difficulties in constructing or implementing works in accordance to its own design. As a result, Ports management has taken necessary actions to remedy the project issues including:

- *Termination of the contract in 2020;*
- *Legal claim to the contractor to recover any entitlements owed under the contract;*
- *Legal claim to the contractor for damages (loss of land and business opportunity); and*
- *Recovery action on the loan is in progress.”*

CRCE Tower Limited – Office Complex (Noble Centre)

In 2015, PNG Ports Corporation signed a partnership agreement with CRCE Tower Limited (CTL) to construct the office complex (Noble Centre). The project commenced in 2015 and was completed in 2020. From documents received, PNG Ports Corporation invested a total of K42.4 million in this project. During my review of the project, I noted the following issues:

- Out of the K42.4 million, K6.8 million was deducted by the Company as payment for the two portions of the land on which the building was constructed. However, no valuation of the land was carried out to establish a fair value neither actual cash payment made to Ports by the contractor for the land;
- Ports provided land which is located at the Central Business District (CBD) and paid K35.6 million towards the construction of the office complex building. However, these contributions do not equate to the benefit the Company will receive in terms of number of floors the Company will occupy; and
- The Company should have its shareholding for contributing the land and K35.6 million as stipulated in the *Project Development Agreement Clause 11*. Instead, the office complex is 100% owned by China Railway Construction Engineering Group (PNG) Real Estate Ltd and no economic benefit in terms of rental income will flow to the Company apart from occupying two floors.

As a result, I was unable to comment whether the board and management of PNG Ports Corporation acted in the best interest of the Company and the State by exercising professional duty of care and due diligence and whether value for money will be achieved in making this investment decision.

Motukea Port Facilities – Terminal Defects

PNG Ports Corporation’s Motukea International Terminal was constructed commencing in 2016 by Curtin Brothers through a K300 million loan from Bank South Pacific (BSP). The terminal was completed and capitalized in February 2018 at a cost of K287,868,203. I noted the following issues during my review:

- The Company fully refunded the K14 million retention payment to the contractor in the same year although it noted defects on ports terminal pavement area;

- In 2019 the pavement area showed signs of deteriorating and the board and management estimated the rehabilitation cost to be around K50 million to K70 million. I confirmed this during my site visitation to the terminal area during 2019 audit that the port terminal was deteriorating with potholes and not meeting international standards;
- The Company failed to comply with the defect liability terms however, went ahead and paid the full retention amount to the contractor rather than withholding the money to extend and fix the damages;
- The Company did not properly adhere to the process on capitalization of work in progress and the policy on retention payment; and
- The contractor did not use the design concept and recommendations by Port's designated consultants but went ahead and used their own project designs.

As a result, I was unable to comment whether there were adequate policies and procedures in place to guide such projects and the policies and procedures have been properly adhered to in managing the project.

Delayed Capitalization of Work in Progress

During my review of the projects revealed that several projects such as GEN 482 Cathodic Protection Monitoring worth of K509,588, KIM 587 Port Pavement repairs worth of K163,862 and KIM 406 Kimbe Oil Palm worth of K631,101 were started prior to 2019 and are still in work in progress although payments have been already made to the contractors. As a result, I was unable to comment on the effectiveness of the controls surrounding the procurement process and whether proper supervision and monitoring mechanisms are in place for the execution of projects.

74.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2021 was in progress.

75. PNG AIR SERVICES LIMITED

75.1 INTRODUCTION

75.1.1 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)*.

75.1.2 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.

75.2 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, 2019, 2020 and 2021 for my inspection and audit.

76. PNG DATACO LIMITED

76.1 INTRODUCTION

76.1.1 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 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.

76.1.2 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.

76.1.3 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.

76.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

76.2.1 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 2020 was issued on 11 January 2022. The report did not contain any qualification, however, an Emphasis of Matter.

“EMPHASIS OF MATTER

Prior period Adjustments

I draw attention to *Note 2.4 (m)* in the financial statements, which discusses the restatement of the prior year’s financial statements. The prior year financial statements were restated to account for the investment in Coral Sea Cable Company as a joint arrangement. During the current year, additional information became available that indicated that the investment was acquired in 2019, but omitted from the financial statements in that year.”

76.2.2 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 2020 was issued on 11 January 2022. The report contained the following significant matters:

Lack of General Ledger (GL) Reconciliations

During my audit, I noted that the GL to sub ledger (SL) for accounts payable were not done. In addition, I was not provided with explanations with the variances noted between GL and SL. As a result, there is a risk that the accounts payable balance may be incorrect.

Management responded to my observation as follows:

“Management notes the observation to be incorrect as GL reconciliations are done on a monthly basis. Issue with sub ledgers relates to AR and AP which are system related. Variance is with AP only of K300,000 to resolve.”

Cyber Security Policy

I noted that the Company does not have a formalized process to manage cyber related risks. There is a risk of unauthorized access to the Company’s information which could lead to financial loss or reputational damages. In addition, the Company is looking to explore the cloud solution services, thus cyber security becomes critical. I recommended management to consider formalizing the policy around monitoring, detecting and controlling cyber exposures.

Management responded to my observation as follows:

“Cyber Security Policy forms part of the Digital Technology Management Policy approved by the Board in its special meeting No 8 of 2020 dated 6 November 2020. DataCo is now working towards achieving ISO 27001 accreditation that relates to the Cyber Security Policy.”

Lack of Intercompany Account Controls

I noted during my review that there is lack of controls around the related party transactions such as no periodic reviews done to confirm related party balances to comply with *International Accounting Standard 24 – Related Party Disclosures*. Management should consider this to accurately reflect the transactions and balances of the related parties. Failure to establish controls around related parties may result in disputes with the counter parties, which may affect the companies supply chain. Further, as intercompany accounts have heightened risk of fraud, this could be an avenue that may be used to perpetrate fraudulent activities.

Management responded to my comments as follows:

“Telikom intercompany balances fully reconciled on a net off arrangement as at 31 Aug 2021. This resulted in a K36m net payable to DataCo. That is, K30m to be paid and K6m to write off. Bemobile intercompany balances also fully reconciled as at 31 Aug 2021 with a 3-year payment plan agreed with Bemobile.”

Manual 2/3 Ways Matching Incomplete

I noted that the 2/3 way matching was not appropriately done in the Company’s payment process. The 2/3 way matching process is an important internal control designed to ensure the funds are properly disbursed for the valid or genuine liabilities and in respect of goods and services that were properly ordered and delivered.

I recommended management to enforce the 2/3way match to all the purchases done to aid accountability and curb loss of resources embodying economic benefits.

Management responded to my observation and recommendation as follows:

“Management noted and initiated procedures to ensure goods received are properly signed with goods received note issued.”

76.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2021 was in progress.

77. PNG POWER LIMITED

77.1 INTRODUCTION

77.1.1 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 the following:
 - (i) all of ELCOM's right, title and interest to any and all assets other than those transferred to PNG Dams Limited 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 Limited 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.

77.1.2 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.

77.2 AUDIT OBSERVATIONS

77.2.1 Comments on Financial Statements

My report to the Ministers in accordance with the provisions of the *Companies Act* on 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 issued on 10 September 2021. The report contained a Disclaimer of Opinion.

“DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs 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 PNG Power Limited, for the year ended 31 December 2018.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances

My report issued for the year ended 31 December 2017 was a disclaimer of opinion as I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, accuracy and completeness of the opening balances of capital work in progress, property, plant and equipment, trade and other receivables, trade and other creditors, inventories, employee entitlements, other provisions and tax balances. Further, the Company restated certain audited balances as at 31 December 2017 as disclosed in *Note 26*, however, I was not able to obtain sufficient and appropriate evidence to assess the appropriateness of the restatements recognised in the financial statements.

These 2017 accounts closing balances were taken up as opening balances for the financial year ended 2018. Since these opening balances enter into the determination of the results of operations and cash flows of the Company for 2018, I was unable to determine what adjustments might have been necessary to the financial position, results of operations, cash flows and changes in equity for the year ended 31 December 2018.

Revaluation of Land and Building

Included in the carrying value of property, plant and equipment reported as K1,781.5 million as at 31 December 2018 was land and building valued K571.5 million (2017: K302.60 million). The Company has elected to adopt revaluation model as its accounting policy and carried its *Property, Plant and Equipment* at fair value. However, the Company has not performed a fair valuation of its land and building as at 31 December 2018.

Also, the Company has not performed an assessment as to the continuing appropriateness of fair valuation of land and building performed in prior periods and used as a basis for the carrying amount of the land and building reported in the financial statements as at 31 December 2018.

Accordingly, I was unable to attest the reasonableness of the fair value of the land and building as at 31 December 2018.

Impairment of Property, Plant and Equipment

In accordance with *IAS-36, Impairment of Assets*, an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If such indication exists, the Company shall estimate the recoverable amount of the asset. I was not provided with an impairment assessment performed by the Company as at 31 December 2018. As a result, I was unable to satisfy as to the appropriateness of the carrying values of the property, plant and equipment as at 31 December 2018 and whether any impairment loss may be required for the year ended 31 December 2018.

Trade and Other Receivables and related Revenue

The Company reported in the financial statements K142.1 million as trade and other receivables for the year ended 31 December 2018, which included receivables from electricity prepaid meters amounting to K15.9million. However, I was not provided with the reconciliation of the receivables in order to confirm the existence of the balance.

The Company reported an expected credit losses provision of K67.0 million as at 31 December 2018 in respect of trade and other receivables. The Company's expected credit losses is estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusting factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as the forecast direction of conditions at the reporting date. However, I was not provided with sufficient and appropriate audit evidence to support and ascertain the expected credit loss rate used in determining the expected credit loss for trade receivables as at 31 December 2018.

Consequently, I was unable to confirm and comment on the existence and valuation of trade and other receivables as at 31 December 2018 and the occurrence and measurement of related revenue for the year then ended.

Trade and Other Payables, Borrowings and Related Expenses

The financial statements disclosed K436.6 million as trade and other payables for the year ended 31 December 2018. I was not able to obtain sufficient appropriate audit evidence to confirm the completeness of recorded trade payables due to the following reasons:

- Unreconciled and unexplained variance of K7.9 million existed between the supplier ageing report and trial balance of the Company;
- Unreconciled and unexplained K29.2 million variances existed between the amount of goods received but not yet invoiced per company's analysis and the amount recorded in the general ledger;
- No reconciliation and appropriate audit evidence was provided to support the non-recognition of invoices amounting to K46.7 million; and
- *Note 12* to the financial statements disclosed K344.1 million as borrowing as at 31 December 2018. However, sufficient and appropriate audit evidence was not provided to confirm the completeness of loan value of K261.6 million.

Accordingly, I was unable to confirm the completeness of the carrying value of trade and other payables, borrowings and related expenses as at 31 December 2018 and for the year ended.

Capital Work in Progress and Property and Equipment

Note 8 of the financial statements disclosed the carrying value of property, plant and equipment including capital work in progress at K1,964.6 million as at 31 December 2018. I was not provided with a fixed asset register or reconciliations that supports the information presented in the financial statements.

Consequently, I was unable to obtain sufficient and appropriate audit evidence to confirm the existence of property, plant and equipment including capital work in progress as at 31 December 2018 and the related depreciation expenses charged to the comprehensive income for the year ended.

Income Tax Effect Account

I was not provided with an income tax reconciliations supporting the information presented in the financial statements. Further, with all the qualification reported in revenue and operational expenses, I was unable to quantify the impact of these qualifications on income tax balances.

As a result, I was unable to satisfy myself whether the income tax balances were fairly stated as at 31 December 2018.

Presentation and Disclosure of Financial Statements

The 2018 financial statements as presented did not contain all the disclosures required by the *International Financial Reporting Standards (IFRS)*, including:

- *IAS 1, Presentation of Financial Statements* – disclosure of information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them (missing information about the other principal features of Company’s borrowings);
- *IAS 7, Statement of Cash Flows* – no disclosure of non-cash activities;
- *IAS 12, Income Taxes* – movements in deferred tax assets/liabilities are not reconciled properly;
- *IAS 19, Employee Benefits (Revised)* – disclosure of actuarial assumptions were not complete;
- *IAS 20, Accounting for Government Grants and Disclosure of Government Assistance* – no disclosure of the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised;
- *IAS 24, Related Party Disclosures* – disclosures of related party transactions and remuneration of key management personnel were not complete; and
- *IAS 9, Financial Instruments*- sensitivity analysis and liquidity/ maturity tables not complete;

Accordingly, I was unable to conclude on the Company’s disclosure on compliance with *International Financial Reporting Standards* as set out in *Note 3* of the financial statements.

EMPHASIS OF MATTER

Without qualifying my report, I wish to draw attention of the shareholders on the following matters:

Basis for Preparation of the Financial Report Other than as a Going Concern

I draw attention to *Note 3.3* in the financial statements, which indicates that the Company’s current liabilities exceeded its current assets by K385.2 million as at 31 December 2018. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as going concern.

Other Legal and Regulatory Requirements

The Papua New Guinea *Companies Act 1997* requires that in carrying out my audit, I consider and report to you on the following matters. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of my report, I conclude that:

- a) Based on my examination of the Company's accounting records, the records were not properly maintained in accordance with the *International Financial Reporting Standards* and the Papua New Guinea *Companies Act 1997*. In addition, I was not able to obtain the necessary information and explanations to provide an audit opinion on the financial statements; and
- b) In contravention of the Papua New Guinea *Companies Act 1997*, the Company failed to submit its duly signed financial statements to the Registrar, within five months of the balance date, unless the Registrar extended this period. No such extension was provided to the Company."

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 year ended 31 December 2019 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 years ended 31 December 2020 and 2021 were in progress.

78. POST PNG LIMITED

78.1 INTRODUCTION

78.1.1 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.

78.1.2 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.

78.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

78.2.1 Comments on Financial Statements

My report to the Ministers in accordance with the provisions of the *Companies Act* on the Company's financial statements for the year ended 31 December 2020 was issued on 8 October 2021. 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 Post PNG Limited for the year ended 31 December 2020;
 - (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

Restatement of Accounts and Opening Balances

I draw attention to *Note 23* to the financial statements, which describes the effects of the restatement of the 2019 accounts. I was not able to ascertain that the restatement fully addressed the errors noted in the opening balances. I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances or comparatives presented. Any adjustments that are found to be necessary on such opening balances would have a consequential effect on the profit and loss for the year ended 31 December 2020 and the comparative profit and loss account presented and the respective statements of financial positions and statement of cash flows.

Tax Balances

As at 31 December 2020, the Company has recorded income tax payable of K3.804 million and deferred tax asset and deferred tax liability of K1.742 million and K17.807 million respectively. The Company has recorded an income tax benefit of K0.031 million for the year ended 31 December 2020.

The Company has neither provided copies of income tax returns lodged nor reconciliation proofing the income tax liability as at 31 December 2020. Similarly, the Company has neither provided the composition of the deferred tax balances recorded as at 31 December 2019 nor the schedules supporting these balances. Given the absence of appropriate records, I was unable to perform sufficient and appropriate audit procedures to obtain reasonable assurance as to the completeness, existence and accuracy of these tax balances as at year ended 31 December 2020. Any adjustment would have a material impact to the statement of comprehensive income and statement of financial position.”

78.2.2 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 2020 was issued on 8 October 2021. The report contained the following matters:

Information Technology General Controls (ITGC)

During my 2020 review of the ITGCs, I noted few instances that required management attention and improvement. The following issues were brought to the attention of the management:

- The Company did not perform periodic review of the appropriateness of the user access roles in Pronto, its Enterprise Resource Planning (ERP) software. Throughout the year, user access roles may change due to change in position and may have been modified in Pronto to suit changes in roles and responsibilities. Hence, a periodic review of user’s access roles helps determine whether existing access was relevant and appropriate for each user;
- While I have identified that the IT department performs back-ups of financial and non-financial data onto secured storage devices on a weekly basis, it was noted that there was no restoration test performed to ensure the effectiveness of the back-ups. Irrespective of how strong a backup process was, there were risks of loss of information owing to number of factors. It was important to perform back-up restoration tests to mitigate and or detect the presence of these risks;
- My inquiry revealed that there was no Disaster Recovery Plan (DRP) documented to prescribe how the Company would quickly resume its operation after an unplanned incident. I reminded the management that lack of appropriate DRP, exposes the Company to a number of risks such as complete loss of data, business interruptions, loss of clients, damaged reputation and business failure; and
- I noted that the server room did not have a logbook to maintain and document those accessing the room at any given time, no fire extinguisher was sighted and obsolete items were unnecessarily occupying the room.

I have provided detailed implications and recommendations to the management and they took note of my concerns.

Controls around Cash Management

My review on cash and cash management revealed the following:

- Lack of timely preparation of bank reconciliations resulting in variances between the bank statement balances and the Company's records;
- Reconciling items in the bank reconciliation statements of the Company's main operating bank account include outstanding cheques that were aged more than one year; and
- There was no written cash handling policy that would guide in ensuring that cash on hand was properly accounted, safeguarded and done in a certain way.

I reminded the Company that not preparing bank reconciliations in a timely manner and the lack of cash handling policy increase the risk of fraud, unauthorized withdrawals, or undetected bank errors.

Management concurred with my findings and recommendation and further advise to improve going forward.

Expired Lease Contracts/Agreements

In addition to use of its properties for administrative and operational purposes, the Company was also leasing out some of its space to third parties. Out of the current leases, there were at least eight (8) expired agreements. Lease agreements maintained by the Company usually have hold over clause which allows the tenant to continue leasing the property on a month-to-month basis at the same rental rate until such time both parties come to an agreement, either to continue with the lease agreement or terminate the agreement. The said clause was not present in the expired lease agreements.

I cautioned management that without a lease agreement, both parties were now reduced to verbal agreement which cannot be substantiated easily. All applicable terms and conditions were not documented and in case of a legal dispute, no definitive position can be presented. At any time, the lessee may also contest the Company's billings particularly the increase in rate. As rental income accounts for about 14% of the Company's revenue, these expired lease agreements should be a concern of the Board of Directors and the top management. Chances were that more expired leases would add to this list.

I recommended that the Chief Executive Officer should task the property division and the Company legal team to renew these contracts as a matter of priority which the management had agreed.

78.3 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 2021 was in progress.

79. TELIKOM LIMITED

79.1 INTRODUCTION

79.1.1 Legislation

Telikom 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 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 Limited as per the allocation statement approved by the Minister for Communications. Telikom Limited is a 100% State Owned Company and it commenced trading on 1 January 1997.

The Company changed its name on 18 December 2021 from Telikom PNG Limited to Telikom Limited.

79.1.2 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.

79.1.3 Subsidiaries of the Company

The subsidiaries of Telikom 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 79A, 79B, 79C and 79D of this Report respectively.

79.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

79.2.1 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 2019 and 2020 were issued on 6 October 2021 and 17 May 2022 respectively. The reports contained similar Disclaimer of Opinions, hence, only the 2020 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 am unable to and do not express an opinion on the financial statements of Telikom Limited for the year ended 31 December 2020.

BASIS FOR DISCLAIMER OF OPINION

Prior Year Disclaimer of Opinion

My report on the financial statements of the Company and Group for the year ended 31 December 2019 was a disclaimer of opinion in respect to:

- Uncertainty on Going Concern;
- Lack of comfort over Information Technology General Controls (ITGC);
- Cash and Cash Equivalents;
- Inventory and the Adequacy of Provision for Inventory;
- Impairment of Intangible Assets;

- Impairment of Property, Plant and Equipment;
- Land Titles;
- EXIM Loan through Department of Treasury; and
- Income Tax.

There were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance as to the correctness of the opening balances. Since the opening balances enter into the determination of the financial position, I was unable to determine whether adjustments might have been necessary in respect of the balances reported in the financial position and the related loss reported for the year.

Limitation of Scope on Going Concern Uncertainties

I draw attention to *Note 2(c)* to the financial statements which indicates current liabilities exceed current assets by K81,826,021 (Group) and K89,924,367 (Company). These events or conditions, along with other matters as set out in *Note 2(c)* indicate that a material uncertainty exists that may cast significant doubt on the Company's and its subsidiaries ability to continue as going concerns and therefore the Company and Group maybe unable to realize assets and discharge liabilities in the normal course of business and at the amounts stated in the financial statements. I have not been provided adequate documentation to support the reasonableness of the going concern assumption applied in the preparation of the financial statements for the Company and the Group.

Revenue

Total revenue from network usage, device rental and sale of products and services as at 31 December 2020 amounted to K248.7 million (Company) and K364.4 million (Group). Sufficient and appropriate audit evidence was not provided to enable revenue testing procedures as well as Information Technology General Controls (ITGCs) testing to be completed during the year. As supporting documentation for testing was not available for my revenue testing, combined with ITGCs being fundamental to the audit of revenue balances in businesses of this nature, I was unable to obtain sufficient and appropriate audit evidence with regards to the completeness, occurrence, cutoff and accuracy of the revenue for the year and the deferred revenue balance at 31 December 2020 as recorded in the Company's and the Group's financial statements.

Deferred Revenue

Deferred revenue liability balance of K5.6 million included in other payables is disclosed in *Note 22* of the Company and the Group's financial statements. However, sufficient and appropriate audit evidence was not provided for me to substantiate the existence, completeness and accuracy of these balances. As a result, I was unable to determine whether any material adjustments to the recorded liability balances at 31 December 2020 and the revenue and resulting loss and profit for the year in the Group's and the Company's financial statements respectively were required.

Journal Entries Testing

The Company and the Group have not retained supporting documentation for journal entries. This resulted in a limitation on the scope of my audit procedures as I am required to assess the significant inherent risk of management override of controls through the recording of fraudulent journal entries. I was unable to determine whether any adjustments might have been necessary in respect of the loss and profit reported in the Group's and the Company's respectively for the year or to what extent, if any, there may have been fraud or errors as a result of the failure to maintain appropriate supporting documentation for journal entries.

Cash and Cash Equivalents

Cash and cash equivalents of K18.7 million is disclosed in *Note 18* as at 31 December 2020 for the Company. Sufficient and appropriate audit evidence was not provided to support the validity of bank reconciliation items between the bank balances and the financial statement balances. As such, I was unable to determine whether the amount of cash and cash equivalents as at 31 December 2020 is reasonable in the Company's and Group's financial statements.

Impairment of Intangible Assets

Intangible assets disclosed in *Note 14* are carried at a value of K12.9 million (Company) and K13 million (Group) as at 31 December 2020. The Company has not performed an impairment test on the intangible assets on the basis that there were no impairment indicators. However, I have not been provided with sufficient information and explanation to assess their representation. As a result, I was unable to determine whether any adjustments to the carrying values of intangible assets at 31 December 2020 and the impairment charged for the year were necessary in the Company's and the Group's financial statements.

Impairment of Property, Plant and Equipment

Property, plant and equipment disclosed in *Note 11* was carried at a value of K948.7 million (Company) and K957.5 million (Group) as at 31 December 2020. Despite the presence of impairment indicators, the Company and Group have not prepared an impairment assessment to determine the recoverable value of these assets as required by *International Accounting Standards (IAS) 36 Impairment of Assets*. Consequently, I was unable to determine whether any adjustments to the carrying values of property, plant and equipment as at 31 December 2020 and the impairment charge for the year were necessary in the Company's and the Group's financial statements.

Capital Work in Progress

Capital work in progress (*Note 11(a)*) totaled K81.4 million for the Company and K82.4 million for the Group were reported at 31 December 2020. I was unable to obtain sufficient appropriate audit evidence to ascertain whether these costs were related to ongoing projects at year end. As a result, I was unable to determine if it was appropriate to capitalize such costs and whether any material adjustments to the classification of the capital work in progress balance at 31 December 2020 and expenses for the year in the Company's and the Group's financial statements were required.

Related Party Transactions and Balances

Total trade and other receivables and trade and other payables of the Company and the Group at 31 December 2020 include receivable and payable balances from related parties which are disclosed in *Note 28* to the Company's and the Group's financial statement. Except for balances with PNG DataCo Limited, sufficient and appropriate audit evidence was not provided to substantiate the existence, completeness, accuracy and valuation of these balances. Additionally, the recoverability of the receivables is uncertain. As a result, I was unable to determine if any adjustments to the recorded balance of related party receivables and payables and subsidiary investments in the Company's and Group's financial statements were required.

Trade Receivables

Trade receivables of the Company and the Group at 31 December 2020 were disclosed in *Note 17* to the financial statements. However, I was unable to obtain sufficient appropriate audit evidence regarding the existence, valuation, classification, accuracy, recoverability and related expected credit losses of the entire accounts receivable balance of K163.8 million (Group) and K138 million (Company). As a result, I was unable to determine whether any material adjustments to the trade receivables balance at 31 December 2020 and the receivables impairment expense for the year in the Company's and Group's financial statements were required.

Land Titles

Documentary evidence in relation to the state leases were not provided to me for properties with a carrying value of K30.3 million to confirm the existence and ownership of these assets. These properties were recognized as part of land and buildings in the statement of financial position. Therefore, I was unable to determine whether the recognition of these assets in the Company's and the Group's financial statements as at 31 December 2020 was appropriate.

Goodwill - PNG Directories Limited

Goodwill of K3.4 million is disclosed in *Note 15* as at 31 December 2020 of the Group. Sufficient and appropriate audit evidence in relation to the net assets of PNG Directories Limited on the date of acquisition was not available. As such, I was unable to determine whether the amount of goodwill relating to PNG Directories as at 31 December 2020 is reasonable in the Group's financial statements.

EXIM Loan through Department of Treasury

During the year, the Group and the Company recognized as a government grant the funding by the Department of Treasury in relation to the National Broadband Network Project amounting to K423.9 million. The amount represents 85% portion of the total value of goods and services supplied to the Group and the Company as at 31 December 2020. There was insufficient audit evidence to determine whether this transaction is to be accounted for as a government grant or as borrowings in the books of the Group and the Company due to lack of formal documentary evidence. Accordingly, I was unable to determine whether any adjustment might have been required in relation to this transaction in the Company's and Group's financial statements.

International Financial Reporting Standards (IFRS) 16 Leases

The Group has not implemented *IFRS 16* which is mandatory commencing financial period ending 31 December, 2019. As a result, I was unable to determine whether any material adjustments might have been necessary in respect of the opening balances, balances recognized at 31 December 2020, the results for the year reported in the statement of comprehensive income and the elements making up the statement of financial position, statement of changes in equity and the statement of cash flows in the Company's and Group's financial statements.

Accrued Trade Expenditure

Accrued trade expenditure liability balance of K60.3 million is disclosed in *Note 22* to the financial statements of the Company. During my review, sufficient and appropriate audit evidence was not provided to substantiate the existence, completeness and accuracy of this balance. As a result, I was unable to determine whether any material adjustments to the recorded liability balances at 31 December 2020 and the revenue and resulting profit and the loss for the year in the Company's and Group's financial statements were required.

Employee Benefits

Employee benefits provision of K36.9 million is disclosed in *Note 24* to the Company's financial statement. Sufficient and appropriate audit evidence was not provided to support the existence, rights and obligations and valuation of this amount. As a result, I was unable to determine whether any material adjustments to the recorded liability balances at 31 December 2020 and the resulting profit and loss for the year in the Company's and Group's financial statements were required.

Business Taxes

Business taxes liability balances of K22.8 million included in salaries tax payable and accrued trade expenditure was disclosed in *Note 22* to the Company's financial statement. However, sufficient and appropriate audit evidence was not provided for me to substantiate the existence, completeness and accuracy of this balance. As a result, I was unable to determine whether any material adjustments to the recorded liability balances at 31 December 2020 and the revenue and resulting profit and the loss for the year in the Company's and Group's financial statements were required.

Income Tax

I was not provided with current and deferred tax calculations for the 31 December 2020 financial year for the Company. In addition, the matters detailed above may have an impact on the financial performance of the Company and Group. Accordingly, the basis for the calculation of the income tax positions and deferred tax balances may not be accurate. As a result, I was unable to determine the appropriateness of the income tax balances and related disclosures in the financial statements of the Company and the Group.”

79.2.2 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 2019 and 2020 were issued on 6 October 2021 and 17 May 2022 respectively. The reports contained similar observations, hence, only the 2020 report is reproduced:

Preparation of Financial Statements

Again, the Company's and Group's financial statements were not prepared and audited in accordance with *Section 179* of the *Companies Act 1997*. Being one of the State-Owned companies and with the going concern issues noted with other qualifications resulting in a disclaimer of opinion, I am concerned about the ability of the management and those charged with governance whether appropriate resources, skills or knowledge were deployed to run the affairs of the Company and the Group.

Reconciliation Process

During the course of my audit, I experienced delays in obtaining key reconciliations and supporting documentation. In addition, I noted a number of misstatements and reported on my summary of audit adjustments.

I recommended that management should ensure monthly reconciliations are performed in a timely manner with all reconciling items investigated and addressed as part of the reconciliation process. Furthermore, supporting schedules for the balances should be critically reviewed and historical reconciling items and clearing items be resolved.

Intercompany Reconciliation

During my review of the Company's intercompany balances, I noted large variances between the balances recorded in the Company's and subsidiaries' books which created difficulties in intercompany reconciliations and eliminations during the consolidation process. As a result, I was unable to rely on the controls surrounding the intercompany reconciliation process and recommended management to strengthen the related review process in the Company and its subsidiaries. This issue was reported in my 2019 and prior year reports.

Review of Bank Reconciling Items

During my review of bank reconciliations, I still noted as in my 2019 audit that the Company maintains a separate cash clearing accounts for its collections and payment transactions which were not cleared on a timely basis, thus, causing overstatement or understatement of cash and related receivable and payable balances.

I recommend that management implement a process of monthly bank reconciliation where all reconciling items are properly captured and timely cleared. Additionally, management should implement timely clearing of these accounts to facilitate proper recording and classification of general ledger accounts.

Accounting for Accruals and Prepayments

As reported in my prior years' reports, I identified a number of audit adjustments related to long outstanding accruals and un-amortized prepayments. I recommended management to introduce regular periodic reviews of prepayments and accruals accounts, particularly old prepayment balances, accruals and unusual balances.

Reconciliation of Opening Retained Earnings

During the course of my audit, I noted variances between opening balance of retained earnings per general ledger and per audited financial statements. Management concurred that these discrepancies were brought about by the unbooked audit adjustments from prior year. I recommended management to post all necessary audit adjustments in a timely manner.

79.3 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 2021 was in progress.

79A DATEC (PNG) LIMITED **(A subsidiary of Telikom Limited)**

79A.1 INTRODUCTION

79A.1.1 Legislation

Datec (PNG) Limited was incorporated under the *Companies Act*. The Company was fully acquired by Telikom Limited from Steamships Trading Company Limited on 1 August 2014. The Company is a wholly owned subsidiary of Telikom Limited.

79A.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.

79A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

79A.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 2020 was issued on 18 May 2022. The report did not contain any qualification.

79A.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 2020 was issued on 18 May 2022. The report contained the following observations:

Clearing Account

During the course of the audit, I noted that a clearing account was not cleared to nil balance as at the year end. This provides opportunity for fraudulent activities to take place without being detected. I recommended the management that clearing accounts must be cleared at month or year end.

Intercompany Process

My review of the intercompany accounts revealed that there was no proper process to account separately for intercompany/related parties balances. This may result in intercompany differences at the time of reporting.

Weaknesses noted for Pronto & Windows Password Settings

During the audit, I noted the following weaknesses:

1. Weaknesses in Pronto, EzyISP and Windows password configurations - a number of better practice configurations were not in place or could not be validated as in place; and
2. Standard user access forms were not always used - new users and terminations were sometimes facilitated through email communication, rather than a standard access form. This could result in inconsistent application of user administration.

79A.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 2021 was in progress.

79B. KALANG ADVERTISING LIMITED (A subsidiary of Telikom Limited)

79B.1 INTRODUCTION

79B.1.1 Legislation

Kalang Advertising Limited was incorporated under the *Companies Act*. The Company is wholly owned by Telikom Limited.

The ownership of the Company changed following the *National Court Order of 9 September 1997* which allowed Telikom Limited to convert the debt due from Kalang Advertising Limited into shareholding. Subsequently, Kalang issued 535,424 ordinary shares to Telikom Limited on 31 October 1997.

79B.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.

79B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

79B.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 2020 was issued on 17 May 2022. 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 to provide a basis for an audit opinion. Accordingly, I am unable to and do not express an opinion on the financial statements of the Company for the year ended 31 December 2020.

BASIS FOR DISCLAIMER OF OPINION

Prior Period Qualification

The 31 December 2019 year end audit opinion included a qualification on the basis that an impairment assessment in accordance with *International Accounting Standards (IAS) 36- Impairment of Assets* was not performed in relation to property, plant and equipment. There were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance as to the correctness of the opening balances. Since the opening balances enter into the determination of the financial position, I was unable to determine whether adjustments might have been necessary for the balances reported for the year.

Limitation of Scope on Going Concern Uncertainties

I draw attention to *Note 1.1* to the financial statements, which indicates that current liabilities exceed current assets by K1,465,162. These events or conditions, along with other matters as 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 maybe unable to realize its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial statements. I was not been provided adequate documentation to support the reasonableness of the going concern assumption applied in the preparation of the financial statements for the year ended 31 December 2020.

Journal Entries Testing

During the course of the audit, I was not provided with sufficient and appropriate audit evidence to enable me to complete the journal entry testing procedures. I was unable to perform the necessary audit procedures required by the *International Standards on Auditing*. This resulted in a limitation on the scope of my audit procedures as I am required to assess the significant inherent risk of management override of controls through the recording of fraudulent journal entries.

Impairment of Property, Plant and Equipment

Note 15 to the financial statement contained property, plant and equipment valued at K1,884,992 as at 31 December 2020. Despite the presence of impairment indicators, the Company had not prepared an impairment assessment to determine the recoverable value of these assets as required by *International Accounting Standards (IAS) 36 Impairment of Assets*. Consequently, I was unable to determine whether any adjustments to the carrying values of the property, plant and equipment as at 31 December 2020 and the impairment charge for the year were necessary in the Company's financial statements.

Related Party Transactions and Balances

Total trade and other receivables and trade and other payables at 31 December 2020 include K616,589 and K2,145,479 respectively with related parties as disclosed in *Note 18*. However, I was unable to obtain sufficient and appropriate audit evidence with regards to the existence, completeness, accuracy and valuation of these balances. Consequently, I was unable to determine if any adjustment to the recorded balance of related party receivables and payables as at 31 December 2020 in the financial statements were required.

Accruals and Other Payables

Note 13 to the financial statements discloses an amount of K480,528 for accruals and other payables. However, the Company has not retained adequate supporting documentation relating to accruals and other payables recorded in the financial statement. This resulted in a limitation on the scope of my audit as I was required to assess the accuracy and the completeness of the accruals balance. As a result, I was unable to determine whether adjustments might have been necessary in respect of the accruals and other payables balance reported at year end.”

79B.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 2020 was issued on 17 May 2022. The report contained the following significant matters:

Month End Balance Sheet Reconciliation

My review revealed that there were no monthly balance sheet reconciliations performed by the Company in 2020. As a result, the following related issues were noted:

- Duplicate entries of accrued audit fees relating to 2019;
- Payment of GST not cleared appropriately in correct general ledger (GL) code;
- Interest income not accrued at year end; and
- Recurring month end accruals were not performed for electricity, rental and lease expense.

Due to the above issues, other income, expense, other receivable and accruals may be over or understated.

I recommend management to have a proper reconciliation and review process and management responded to my observations as follows:

“This is critical to track our monthly financial transactions, hence, changes have been made to ensure this deficiency is mitigated by; 1. MYOB user access changed to designated users; and 2. Recruitment of permanent Finance Manager who will manage entries and check the balancing items on daily basis.”

Journal Entries

During the course of the audit, I noted that journal entries were not signed and approved to validate the journal entries before posting. I reminded management that such weaknesses can potentially impact the financial statements and further recommended them to implement a financial reporting process including having proper documentation and evidence in place to substantiate the journal entries posted in the general ledger (GL).

In its comments, management advised me that these issues are being addressed.

Staff Advances

Certain former senior executives of the Company did not effectively adhere to the staff advance policy when loans were advanced to them which has resulted in legal letters of demand being issued in an attempt to recover the monies owed. Non-compliance with the staff advance policy demonstrates that there has been management override of controls designed to safeguard the assets of the Company.

79B.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 2021 was in progress.

79C MEDIA NIUGINI LIMITED (EMTV) (A subsidiary of Telikom Limited)

79C.1 INTRODUCTION

79C.1.1 Legislation

Media Niugini Limited (EMTV) was incorporated under the *Companies Act*. The Company was acquired by Telikom 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 Limited.

79C.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.

79C.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

79C.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 2018 and 2019 were issued on 5 October 2021. The reports contained similar Qualified Opinions, hence, only the 2019 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 Media Niugini 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 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 it 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 2018 was a qualified opinion in respect to income tax balances. There were no satisfactory audit procedures that I could otherwise perform to obtain reasonable assurance as to the correctness of the opening balances. Since the opening balances enter into the determination of the financial position at 1 January 2019, I was unable to determine whether adjustments might have been necessary in that respect and of the loss reported for the year.

Income Tax Balances

I have not been provided with current and deferred tax calculations for the year ended 31 December 2019 to verify and confirm the balances disclosed in the financial statements. The current and deferred tax may have impact on the financial performance and position of the Company. Accordingly, I was unable to determine whether any adjustments might be necessary. As a result, I was unable to determine the appropriateness of the income tax balances and disclosures in the financial statement.

International Financial Reporting Standard (IFRS) 16 Leases Adoption

IFRS 16 is a new Accounting Standard that became mandatory for the first time in the 31 December 2019 financial year. The Company has continued to classify leases in accordance with *IAS 17 - Leases* and has not implemented *IFRS 16*. As a result, I was unable to determine whether any material adjustments might have been necessary in respect of the opening balances, balances recognized at 31 December 2019, the result for the year reported in the statement of comprehensive income and the elements making up the statement of financial position, statement of changes in equity and the statement of cash flows.

Related Party Transactions and Balances

Total trade and other receivables and trade and other payables at 31 December 2019 included intercompany receivables of K1,002,644 and intercompany payables of K1,216,266 to and from related parties. Sufficient and appropriate audit evidence was not provided to substantiate the existence, completeness and accuracy of these balances. As a result, I was unable to obtain sufficient and appropriate audit evidence with regards to the existence, completeness and accuracy of these balances and was unable to determine if any adjustment to the recorded balances of related party receivables and payables in the financial statements is required.

Journal Entries Testing

The Company has not retained supporting documentations for journal entries for the year 31 December 2019. This has resulted in a limitation of scope of my audit procedures as I was required to assess the significant inherent risk of management override of controls through the recording of fraudulent journal entries. I was unable to determine whether adjustments might have been necessary in respect of the loss reported for the year or to what extent, if any, there may have been fraud or errors as a result of the failure to maintain appropriate supporting documentations for journal entries.

EMPHASIS OF MATTER

Material Uncertainty Related to Going Concern

I draw attention to *Note 2* to the financial statements, which indicates that the Company incurred a net loss of K4,250,462 (2018: K10,736,039) for the year ended 31 December 2019 and operating cash flows were negative K17,717 (2018: negative K613,995). In addition, the Company's current liabilities exceeded its current assets by K22,321,321 (2018: K18,205,341). 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 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."

79C.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 2018 and 2019 were issued on 5 October 2021. The reports contained similar observations, hence, only the 2019 report is reproduced.

Intercompany Reconciliation

During my review of the Company's intercompany balances, I noted large variances between the amounts recorded in the Company's books and its parent Company, and co-subsidiaries' books which created difficulties in intercompany reconciliations and eliminations during the consolidation process. I was therefore unable to rely on the effectiveness of the internal controls surrounding the intercompany reconciliation process and recommended management to strengthen the related review processes.

Business Tax (Goods and Service Tax (GST))

The Company did not remit monthly GST returns to Internal Revenue Commission (IRC) as required by *Section 63* of the *Goods and Service Tax Act, 2003*. As a result of the non compliance, fees were charged on a monthly basis reducing the Company's GST receivable. In addition, there were no reconciliations between IRC statement and the Company records for accuracy and the completeness of the balances.

79C.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 2020 and 2021 were in progress.

**79D. PNG DIRECTORIES LIMITED (Formerly E. H. O'Brien Limited)
(A subsidiary of Telikom (PNG) Limited)**

79D.1 INTRODUCTION

79D.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.

79D.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 2020 and 2021 were in progress.

80. WATER PNG LIMITED (Formerly PNG Water Board)

80.1 INTRODUCTION

80.1.1 Legislation

PNG Water Board 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.

80.1.2 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.

80.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

80.2.1 Comments on Financial Statements

My reports in accordance with the *Companies Act* on the Company's financial statements for the years ended 31 December 2019 and 2020 were issued on 6 October 2021 and 7 June 2022 respectively. The reports contained similar Disclaimer of Opinions, hence, only the 2020 report is reproduced.

“DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs below, I am unable to obtain sufficient appropriate audit evidence and accordingly, I am unable to and do not express an opinion on the financial statements of Water PNG Limited for the year ended 31 December 2020.

BASIS FOR DISCLAIMER OF OPINION

Opening Balances and Corresponding Amounts

My audit report on the financial statements of Water PNG Limited for the financial year ended 31 December 2019 was a disclaimer of opinion due to my inability to obtain sufficient and appropriate audit evidence to ensure the completeness, existence and accuracy of the balances reported as at 31 December 2019 including Loans from National Government of K107.54 million; Land and Pipelines included in the Property, Plant and Equipment of K478.63 million; Cash and Cash Equivalents of K15.09 million; Capital Works in Progress of K30.41 million; Deferred Grant Income and related Depreciation Adjustment of K43.89 million and K3.69 million respectively; Taxation – Income Tax Expense, Deferred Tax Asset, Deferred Tax Liability and Current Tax Liability of K6.46 million, K12.14 million, K29.90 million and K19.29 million respectively.

For the year ended 31 December 2020, I was unable to perform alternative procedures over these opening balances due to continued lack of appropriate supporting documentation. Since the opening balances enter into the determination of the financial position at 31 December 2020 and the results of operations, equity movements and cash flows of the Company for the year ended 31 December 2020, any adjustment found necessary on these opening balances would have a consequential effect on the financial position at 31 December 2020 and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020. I was unable to determine whether any such adjustment might be necessary for the year ended 31 December 2020, and for the corresponding period.

Loans from National Government (Non-Current Liabilities – ADB Loan)

Note 19 to the financial statements of the Company has disclosed Loans from National Government amounting to K107.54 million at 31 December 2020 and 2019 respectively. The balances recorded did not reflect loan repayments due according to the historical loan agreements provided for my review. In seeking to understand the issue of non-reconciling amounts owing, I was unable to obtain third party confirmations or alternative documentary evidence to assess the completeness, existence, classification and accuracy of the Loans from National Government. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2020 and 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020, and for the corresponding period.

Deferred Income (Grant) and Related Depreciation Adjustment

Note 17 and *15* to the financial statements of the Company disclosed deferred income and the related reduction in depreciation amounting to K40.28 million and K3.69 million as at and for the period to 31 December 2020, and K43.89 million and K3.69 million as at and for the period to 31 December 2019 respectively. I was unable to obtain signed contracts/agreements or alternative documentary evidence to assess the grant arrangements and therefore the completeness, existence, classification and accuracy of the recorded amounts of deferred grant income and related depreciation adjustment. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2020 and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020, and for the corresponding period.

Property, Plant and Equipment – Land and Pipelines

As sets out in *Note 15* to the financial statements, the Company has disclosed property, plant and equipment of K478.57 million at 31 December 2020 and K478.63 million at 31 December 2019. The Company has an accounting policy of carrying property, plant and equipment at fair value, using external valuations at least every 3 years with Directors valuations in intervening years. The Company last obtained an external valuation as at 30 June 2018 of certain items of property, plant and equipment however, the external valuation did not include land and certain pipelines within the civil works, pipelines and connections class.

As at 31 December 2020, the Directors assumed the 30 June 2018 external valuation as the fair valuation of property, plant and equipment. The Directors did not prepare a Directors' valuation for certain of the land and pipeline assets (not included in the external valuation) as a replacement valuation for the external valuation and there was no evidence provided for the legal title of the land. The carrying value of this land amounted to K12.12 million at 31 December 2020 and K9.71 million at 31 December 2019. The carrying value of the pipelines not revalued amounted to K51.90 million at 31 December 2020 and 31 December 2019 respectively.

In the absence of a current external valuation, a Directors' valuation and evidence of legal title, I was unable to obtain sufficient appropriate audit evidence over the accuracy and valuation of these specific items of property, plant and equipment as at 31 December 2020. Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2020 and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020, and for the corresponding period.

Project Assets, Liabilities and Cash Flows (Capital Works-In-Progress)

As set out in *Notes 11, 15 and 17* to the financial statements, the Company has disclosed Cash and Cash Equivalents, Capital Works in Progress and Deferred Income of K21.50 million, K33.48 million and K40.28 million at 31 December 2020, and K15.09 million, K30.41 million and K43.89 million at 31 December 2019 respectively.

The Company's Project Management Unit had a number of capital construction projects still work-in-progress as at 31 December 2020. These projects have been funded by the Government of Papua New Guinea's Public Investment Programme (PIP) and the World Bank. The projects are directed towards the supply of water and sanitation services in selected districts and provincial towns across Papua New Guinea where access to clean and reliable water supply are limited.

The financial transactions and assets related to the projects are recorded separately and standalone financial statements are prepared on a modified cash basis by the Project Management Unit of the Company.

The Company has legal documentations supporting ownership of all the projects' assets, controls operational activities of the Project Management Unit, and the assets constructed using third party funding (PIP and World Bank funds) are transferred to the Company's Fixed Assets Register only after their construction is completed.

It is the Company's policy not to include Cash and Cash Equivalents, Capital Work in Progress and Deferred Income balances of third party funded amounts managed by the Project Management Unit until a project is complete.

The preliminary and unaudited financial statements of the Company's Project Management Unit's flagged significant amount of Cash and Cash Equivalents, Capital Work in Progress and Unused Capital Funding Receipts (Deferred Income) as at and for the year ended 31 December 2020 and 31 December 2019 but not included in the Company's Financial Statements at 31 December 2020 and 31 December 2019 were as follows:

| Account | 2020 | 2019 |
|--|----------------|----------------|
| Cash and Cash Equivalents | K21.39 million | K21.80 million |
| Capital Work in Progress (Project expenditure) | K7.39 million | K14.68 million |
| Deferred Income / Capital Funding receipts) | K4.18 million | K24.35 million |

I however, noted that the Company's policy not to include Cash and Cash Equivalents, Capital Work in Progress and Deferred Income balances of the ongoing projects until a project is complete is not in accordance with the accounting standards.

Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2020 and 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020, and for the corresponding period.

Taxation

The Company disclosed in *Note 10* to the financial statements Income Tax Expense, Deferred Tax Asset, Deferred Tax Liability and Current Tax Liability of K11.30 million, K14.93 million, K31.33 million and K30.42 million as at and for the period to 31 December 2020 and K6.46 million, K12.14 million, K29.90 million and K19.29 million as at and for the period to 31 December 2019 respectively.

I was unable to obtain sufficient and appropriate audit evidence over the completeness, existence and accuracy, and related tax impacts of the transactions and balances of the Company for the year ended 31 December 2020 as the Company has not maintained appropriate records or calculations of its income tax position.

Accordingly, I was unable to determine what adjustments might be necessary to the statement of financial position at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2020, and for the corresponding period.

EMPHASIS OF MATTER

Without qualifying my report, I wish to draw attention of the shareholders on the following matter:

Compliance with other Legal and Regulatory Requirements

In accordance with the Papua New Guinea *Companies Act 1997*, I have a duty to report on significant matters arising out of the financial statements to which the report relates in carrying out my audit. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of my report, I am obliged to report to you on the following:

- a) Based on my examination of the Company's accounting records, I conclude that proper records have not been maintained to prepare and present true and fair view of the Company's financial position, operational results and cash flows to comply with the *International Financial Reporting Standards* and the *Companies Act 1997*. In addition, I was not able to obtain the necessary information and explanations to provide an audit opinion on the financial statements; and
- b) In contravention of the Papua New Guinea *Companies Act 1997*, the Company failed to submit its duly signed financial statements to the Registrar, within five months of the balance date, unless the Registrar extended the period. No such extension was provided to the Company by the Registrar."

80.2.2 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 31 December 2019 and 2020 were issued on 6 October 2021 and 7 June 2022 respectively. The reports contained similar observations, hence, only the 2020 report is reproduced:

Inadequate Review & Maintenance of Fixed Assets Register (FAR)

I noted the following issues relating to maintenance of the Company's fixed asset register (FAR):

- The FAR is maintained in an excel spreadsheet and any additions and disposals are manually adjusted which potentially gives rise to manipulation or error risk;
- No evidence of regular reviews of the fixed asset register including impairment testing and checks by senior personnel. This also includes checks by the different Branches on the accuracy and completeness of the Branch's specific FAR;
- Depreciation and revaluation gains or losses are manually calculated in an excel spreadsheet whilst additions and disposals are manually entered in the excel FAR which exposes the Company to the risk of calculation and accuracy errors and manipulation;
- The Company does not perform annual assessment of the remaining useful lives of the fixed assets. This could lead to potential accuracy risk of the depreciations recorded in the financial period; and

- The FAR does not contain the historical costs of the individual assets. Resultantly, there is a risk of inaccurate determination of the asset tax bases for tax purposes.

I recommended management to take the following measures:

- Maintain the FAR in the accounting software system to ensure accurate calculation of depreciation and revaluation gains or losses. This will also enable an audit trail to be generated for any changes to the FAR and approvals for any such changes to the FAR;
- Execute regular, timely and diligent reviews of the fixed asset register including asset verification in-order to confirm existence and completeness of the assets recorded in the FAR and the financial statements. The reviews should be evidenced by sign-offs by the respective Branch Managers and senior finance personnel; and
- Carryout annual assessment of the remaining useful lives of the assets in the FAR to ensure accurate depreciation figures are recorded in each financial period. This will also include regular impairment testing for the obsolete assets or assets no longer in use.

Management provided their responses as follows:

- *“A review of all assets in the FAR to confirm the existence by Branch Managers through an Asset Verification Exercise was carried out from 22/06/2021 to 25/08/2021;*
- *The updating of the FAR had started in 3rd quarter of 2021 by using verification checklist provided by all Business Centers, and is continuing in 2021. This is a major and lengthy exercise to ensure the assets are in line with the fair valuation report by Professional Valuers and also current 2021 revaluation exercise that is in progress;*
- *To obtain approval for write-off or inclusion from Management is now moved to 3rd or 4th quarter of 2021;*
- *In the 4th quarter of 2021, a system error occurred when trying to upload the FAR in the Pronto and was put hold and will again do loading in Pronto after the system upgrade from 720 version to 760 version; and*
- *The annual assessment of the remaining useful lives of the assets is yet to be attended to by engaging an external party to assist.”*

Non-Availability of Land Title Deeds & Valuations

I noted that the Company had 172 pieces of land on its asset register as at 31 December 2020. However, only 32 pieces of the land had titles. I also noted that on most of the pieces of the land, the Company has other items of property, plant and equipment including pipelines and civil works. Furthermore, I noted that the Company did not perform any revaluation for the land to which there is evidence of legal titles. I warned management that there exist risk of possible onerous contract, litigation or loss of property should the land be registered under the name of a different party.

My inquiry with management revealed that the Company has started a process of obtaining legal titles to all the pieces of land. I therefore recommended for expediting the process to have the legal titles up to date. I also recommended that for the pieces of land that have legal titles must be assigned with the values determine by external valuation experts.

Management stated in response that valuation report from the Professional Valuers for the year ended 31 December 2020 has been received in 2021, and now being updated and will be included in the FAR for the year ended 31 December 2021.

Inconsistencies in the Asset Listings Provided to External Valuers for Valuation

The Company engages an independent external valuer to perform a full valuation of the items of Property, Plant & Equipment (except land) on a triennial basis. I noted that for the full external valuation performed as at 30 June 2020, the data and information provided to the external valuers had inconsistencies including incorrect classifications and omissions. Resultantly, after the valuation report was finalised, management had to adjust some of the balances for asset classes and also perform a reclass of some of the assets. This also resulted in Lae pipelines worth K50.6 million being omitted from the full valuation. Furthermore, other adjustments including reclassification adjustments made amounted to an absolute value of K35.5 million. The net adjustments amounted to K1 million decrease.

I cautioned management that there is a risk of inaccurate and incomplete determination of the valuation of the PPE held by the Company. This is counter-productive to the objective of engaging a valuation expert if some assets are omitted or incorrectly classified. I therefore, recommended the Company to ensure that FAR provided to the independent external valuer is the most accurate to avoid any further adjustments post the finalisation of the valuation reports.

Management responded, *“The loading of FAR in Pronto Live Environment did not take place due to error when trying to load. The WPNG finance team & Pronto team now agree to delay this project until the project to map all current balances to the new COA for both WPNG Regional and Port Moresby Operation. This project to implement Pronto in the WPNG Pom Operation is currently in progress and the proposed date on completion is by 31st August 2022. The loading of FAR is now to be completed by quarter 4 of 2022.”*

Inadequate Review of External Valuation Reports

I noted that there was no evidence of management or Board performing review of the external valuation done by an independent third party (valuers). The valuations were however, accepted and adopted by the Company. As such, I advised management that there is a risk that the Company may adopt valuations that might not be within reasonable ranges.

Accordingly, I recommended management to action thorough reviews and challenge the valuation reports performed by external valuers to ensure that the values are reasonable.

Management stated that they agree with my observation and recommendation and advised that fair valuation exercise in 2021 will be thoroughly reviewed and analyzed before accepting the valuation report and submitting to the Board for their noting and comments.

Lack of Bank Reconciliation Reviews and Approval

I noted from examination of the Company's bank reconciliations prepared that there was no evidence of reviews being done and approved by a senior finance team member. Upon further inquiry with the process owners, there was no process of bank reconciliation reviews performed during the year. Furthermore, I noted significant reconciling items in the bank reconciliation statements.

As such, I advised management that accurate and timely bank reconciliation is a key control which ensures that transactions are completely and accurately captured. I also warned that material misstatements might not be identified or prevented in the banking and payments processes.

I recommended management to ensure bank reconciliations are prepared on a monthly basis and proper reviews are performed by another staff more experienced and senior to the preparer.

Management reacted, *"The review of bank reconciliation is an ongoing process, the senior personnel has been reviewing and signing off the monthly reconciliation in 2021 and going forward."*

Deferred Incomes Lacked Supporting Documentations

The testing I performed on the account balances revealed that the deferred income (liability) balance of the Company had a material amount of K43.87 million. The management however, was not able to provide the relevant documentations including agreements papers, contracts or other necessary correspondences to support validity of the deferred income (liability) balance. As a result, I was unable to reliably determine the appropriateness of its classification as deferred income (liability).

I brought to the attention of management that there is a risk of inaccurate recognition of income from amortising the deferred income balance and overstating the Company's liability balances.

I recommended that the Company should consult the financiers (including the shareholders) and seek confirmation of the nature of the funds provided, that is, whether these funds would have been a donation, grant or capital contribution from the shareholders.

Management in response stated that they have written to KCH through ARCC on the deferred income and also liaising with the external parties to assist with the Management position paper on the appropriate accounting treatment.

Loans from the National Government (GoPNG), Asian Development Bank (ADB) and Subsidiary Loans Lacked Supporting Documentations

My testing of the account balances noted that the Company had significant loans amounted to K110 million with the National Government and Asian Development Bank (ADB). The loans were obtained to fund provincial and urban water supply projects. However, the Company has never repaid principal or interest of the loans since their *inceptions* in the years 1993, 1994 and 2001. Based on the terms of the original agreements, these loans were supposed to have been fully repaid by the end of the 2017 financial year. However, the Company has been accruing interest yearly without even paying them.

The Company could not obtain and provide me with a third-party confirmation from the Department of Treasury to confirm the loan balances, revised repayment terms, interest rates and maturity dates of these loans. Accordingly, I noted a going concern issue or a liquidity risk should the lenders demand full repayment of the loans within a short period of time. Therefore, I recommended the Company to discuss with the National Government and agree to on the loan repayment terms through the assistance of Kumul Consolidated Holdings (KCH).

Management replied that they have written to KCH through ARCC on the ADB loan and will continue to follow up with KCH.

Management Position Paper on Accounting for External Funded Projects

The Company had a number of Public Investment Programme (PIP) and World Bank funded projects running as at the year-end. The Projects Management Unit of the Company maintains separate accounting records for capital work-in-progress and project funds, that is, separate bank accounts and transaction records have been maintained for all externally funded projects. However, these projects' transactions and account balances including capital work-in-progress (CWIP), cash at bank and corresponding liabilities and equity balances are not incorporated in the annual financial statements of the Company. Furthermore, management does not have a management position paper detailing the appropriateness or the accounting basis for keeping the balances off-balance sheet. As such, I alarmed management that there are risks of understating the CWIP, cash at bank and corresponding liability and equity balances should they meet the appropriate recognition criteria for inclusion in the Company's financial statements.

I recommended management to put together a management position paper that details the accounting considerations of whether the assets, liabilities and equity of the project funding meets the recognition criteria for inclusion in the Company's financial records.

Management stated that they have engaged KPMG Chartered Accountants to assist with the Management position paper regarding proper accounting treatment of the external funded projects.

Inaccurate Calculation of Tax Balances

The Company was liable to pay income taxes from 1 April 2017. As at 31 December 2017, the Company's 30% income tax expense applied on profit before tax did not take into account non-deductable or not-taxable expenses and income respectively. There were no deferred tax assets, deferred tax liabilities or provision for taxes recorded.

I noted that the Company could not determine the original costs of a number of assets in the FAR. Resultantly, the tax base balances could not be reliably measured. Also, due to the inability to accurately measure a number of asset and liability balances as well as transactions had impacts on the tax calculations.

I cautioned management that there is a risk of lodging incorrect tax returns which can lead to potential penalties being charged on the Company. Accordingly, I recommended the Company to address all glaring issues before the finalisation of the 2020 financial statements.

Management retorted that they have engaged KPMG for the 2020 tax calculations and entries are yet to be taken up in the financials. All the outstanding returns from 2017 to 2019 have been submitted by KPMG Tax team to IRC and have received the Assessment.

Audit Readiness

I noted that certain key areas of the audit had not been addressed prior to the commencement of my audit processes although considerable improvements noted during my 2020 financial year audit. Some key areas which need to be addressed and ready prior to audit commencement include:

- Preparing financial statements in advance;
- Having ready adequate documentations on tax calculations, deferred income, property, plant and equipment, fixed asset register, lease agreements etc;
- Preparing management judgments and estimates in advance;
- Reviewing accruals for completeness in advance; and
- Addressing and resolving issues with regards to property, plant and equipment in advance.

I recommended management to perform a thorough review of the financial statements before handing them over for my audit. I also informed management to prepare management position papers before 31 December each year on areas of key management judgements and estimates relating to residual values and useful lives of property, plant and equipment, impairment allowances for receivables, and so on. Management noted my findings and assured to implement my recommendations going forward.

Anti-Fraud Controls

I identified that the Company's anti-fraud controls require strengthening, taking-into-account its scale of operations and its relative decentralization. In particular, there has been no whistleblower hotline where employees could anonymously report suspected misappropriation and fraud. As such, key financial processes including payroll, procurement and general information technology controls have been susceptible to risk of fraud. I advised management to consider strengthening anti-fraud controls, in particular, establishing a whistle-blower hotline or e-mail address, and arrange internal audits focusing on wide range of issues including specific anti-fraud procedures.

Management agreed to my findings and recommendations and informed that they are working towards writing up *Standard Operating Procedures (SOP)* including Whistle Blower Policy, Procurement and Payroll Process Mappings and general IT Policy and SOP to strengthen WPNG's anti- fraud control.

Weak Information and Communication Technology (ICT) Control Environment at Water PNG

My review of the general ICT control environment at Water PNG Limited noted weaknesses needing urgent corrective measures to prevent impending risks. I have detailed my observations, the risks imminent and recommendations for improvement in my *Management Letter* to the management. Summarized below are the key areas covered in my review and the weaknesses and risks identified:

- ***Weak configuration of access rules on the key business applications*** - The key business systems (*Pronto Billing System and Active Drive (AD)*) of the Company revealed weaknesses on configuration of access rules. The weaknesses identified included: certain users having given excessive access rights to the Pronto and AD applications without conducting regular reviews and monitoring; unlicensed user accounts existed on the systems; no formal user access matrix was available for allocating access privileges; no system access controls to address segregation of duty conflicts; there were generic accounts created which were not linked to employee (email address); a number of idle and unmonitored privileged super user accounts existed; and the password settings were weak compared to the standard setting requirements. I cautioned management that such weaknesses can create avenues for the users to access the system and perform malicious and fraudulent activities.
- ***Lack of effective formal user access management processes*** - WPNG Limited has no "*User Access Management Policy*" in place. As such, *user access request forms* that predetermines details of the users being granted/revoked access, dates and approval from the line manager, and access requirements of user profile in the key business application were not available. Also, there was *lack of effective communication* for communicating the creation, modification and deletion/disabling of users from the network or key business system. I warned management that in the absence of proper user access management processes, unauthorized access may be obtained to the Company's data and information that could lead to invalid changes being made or confidential data being obtained inappropriately.

- ***No formal change management policy and procedures*** - Changes made to the key business systems of Water PNG have not been adequately developed, tested, approved and documented prior to migration to the production environment so that the changes made will meet user requirements and will not have negative impacts on any of the existing application controls. I alarmed management that where changes are performed directly into the production environment without following strict change management processes, there is a greater chance for erroneous and unauthorized changes being made to the production systems or the ICT environment which may cause systems and data to compromise. Changes not formally developed and tested are *less* likely to meet business requirements and may result in operational failures, or a loss and corruption of business data.
- ***Lacked monitoring process for the existing infrastructure and user access*** - Neither formal processes existed nor was there resources assigned to monitor the use of privileged profiles or their equivalent on the network. Regular reviews of the user access lists are not performed and no formal procedures existed to monitor critical security events in the network or application levels. The central router on the Water PNG network was not configured to log router operating system events and associated network activity. I brought to attention of management that in the absence of active monitoring of network and user security activities, attempts to gain unauthorized access or poor network activity may go undetected resulting in data exposure and malicious unauthorized network traffic data changes. I warned management that in some cases, data that is compromised can be rendered useless and the Company's information may be lost and Water PNG may expend considerable effort and cost to recreate lost data.
- ***Inadequate ICT policy and procedure documentations*** - The ICT policy documents has not yet been approved by the Board of Water PNG at the time of this report. The existing policy does not adequately cover many aspects of information security including: *Information Security Organisation (ISO), Asset Management, Human Resource Security, Business Continuity Management, Communications Management, Compliance Management, Access Control, Information Systems Acquisition, Development and Maintenance, Incident Management, and Physical and Environmental Security*. In addition, ICT users are not given trainings on security of the ICT assets and resources they access.

I notified management that without a clear policy on information security, computing activities can be done in an inadequate and inconsistent manner and compromise the confidentiality, integrity and availability of computer systems and data thereof. I warned that users may unknowingly violate acceptable user guidelines and expose the Company's information assets to security threats.

- ***Poor IT assets management program and use of unsupported software*** - There is no automated asset management tool in place to effectively identify the Company's ICT assets and define appropriate protection responsibilities. WPNG had not clearly defined assets hosting sensitive information, manage inventory and understand data flows throughout internal network and external to the Company. An effective asset inventory program/exercise to give management a clear view of all the hardware and software assets was not performed during the period under review. Further, the machines (computers) at Water PNG were utilizing different Operating System (OS) solutions without maintaining and timely update of *patch solutions* hence, exposing all computers on the domain to attacks by viruses and malware.

I cautioned management that a lack of control over WPNG's ICT inventories can lead to increased costs, compliance breaches and poor performance.

- ***Opportunity to enhance administration of Virtual Private Network (VPN) access*** - WPNG makes use of the FortiGate 300D for their Virtual Private Network (VPN) access. However, there was no VPN policy and supporting security measures implemented to protect information access, processing or storage at teleworking sites.
- ***Improving resilience through business continuity planning*** - A formal *Business Continuity Management (BCM)* plan has not been documented or tested at WPNG. The BCM describes procedures to recover business operations (*Business Continuity Plan - BCP*) and outlines arrangements for continuing critical data processing activities (*Disaster Recovery Plan - DRP*) in the event of a disaster or unexpected event.

I alarmed the management that a BCM plan is a last line of defense for any business against risks that cannot be controlled or avoided by other risk management practices. In the absence of tested BCM, WPNG may not be able to effectively respond and minimize disruption in the event of a disaster. This could expose WPNG to increased financial and operational costs to recover to normal operating capacity hence, can impact its operations and reputation.

Management responded to my observations on ICT by stating that most of the ICT issues are addressed by the Company's new ICT policy to be tabled for approval by the Water PNG Board. I will follow up in my subsequent years audit to ensure appropriate ICT policies and procedures have been drafted, approved and implemented to address the issues identified and reported.

General Ledger (GL) Accounts Reconciliations

My review revealed that general ledger accounts reconciliations are being overlooked. There was no process in place to ensure all GL accounts are regularly reconciled, reviewed, signed off and corrections done promptly. The absence of GL account reconciliations had affected my effort to conduct a proper review to determine the existence, completeness and accuracy of transactions recorded in the systems categorized by WPNG as assets and liabilities.

I notified management that GL accounts reconciliation is an important accounting tool for ensuring financial management controls. Without proper and timely reconciliations, the completeness and accuracy of the account balances cannot be ascertained.

Accordingly, I recommended that management should ensure all general ledger accounts reviews and reconciliations are done on a monthly basis. The reconciliations must be reviewed and approved by senior finance officer. All reconciling items identified to be actioned promptly.

Management responded *“Management had addressed issues related to opening balances in the prior year and 2020 audits. Going forward, general ledger reconciliations are to be performed monthly.”*

80.3 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 2021 was in progress.

SECTION C

NATIONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES

81. 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 61 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 **82** to **83**.

82. BOUGAINVILLE COPPER LIMITED

82.1 INTRODUCTION

82.1.1 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 2020 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 totaling 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.

82.1.2 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.

82.2 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 2021 and the audit report was issued on 4 April 2022. This report contained a Qualified Opinion.

“QUALIFIED OPINION

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section 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 2021 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 2021. Management has not been provided with audited financial statements of the investee at 31 December 2021 and there is currently no active market for the sale of units in the investment fund. As a result, we have been unable to obtain sufficient appropriate audit evidence to satisfy myself of the valuation of this investment recognised in the consolidated balance sheet at 31 December 2021 at K1.1 million. We were unable to determine whether any adjustment to this amount was necessary.

KEY AUDIT MATTER

In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matter described below to be a key matter to be communicated in our report:

Accounting for and disclosure of the impact of the implementation of the Bougainville Mining Act 2015

Legislation passed in 2014 and 2015 by the Autonomous Bougainville Government (AGB) has challenged the Company's control of the Panguna mine assets.

The Special Mining Lease held by the Company was converted to an exploration licence. In January 2018, the Company's application to renew the exploration licence was refused by the ABG. The Company commenced an action in the National Court of Papua New Guinea and was granted leave in April 2018 for a Judicial Review of the renewal application process.

These events continue uncertainty around the future of exploration and mining operations at the Panguna mine and surrounds which impacts accounting for mine assets and related disclosures."

83. GOGOL REFORESTATION COMPANY LIMITED

83.1 INTRODUCTION

83.1.1 Legislation

Gogol Reforestation Company Limited was incorporated under the *Companies Act* on 13 October 1977. 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.

83.1.2 Objective of the Company

The objective of the Company is to be involved in reforestation.

83.2 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, 2019, 2020 and 2021 had not been submitted for my verification.

Further, I was informed by management on 16 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 29 June 2022 revealed that the Company was not deregistered.

SECTION D

PROBLEM AUDITS (AUDITS IN ARREARS)

84. 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.

84.1 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.*

84.2 EXCLUSION OF ENTITIES FROM FUTURE REPORT

- *APEC 2018 PNG Coordination Authority;*
- *Border Development Authority;*
- *Cocoa Coconut Institute Limited of PNG;*
- *Kumul Gas Foreland 239 B.V;*
- *Kumul Gas Foreland 261 B.V;*
- *Kumul Gas Foreland 268 B.V; and*
- *Kumul Gas Foreland 269 B.V.*

85. AUDITS IN ARREARS

85.1 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 (2020) 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.

85.2 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.

85.3 LEGISLATIVE REQUIREMENTS

To ensure the timely preparation of financial statements, *Section 63(3)(a)* of the *Public Finances (Management) Act 1995 (as amended)*, 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 **53 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 Finances (Management) Act 1995 (as amended)*, 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.

85.4 CURRENT YEAR AUDITS (2021 AUDITS)

There are **132 entities** subject to audit by the Auditor-General comprising of **83** Public Bodies and their subsidiaries, **47** National Government owned companies and **2** companies in which the National Government has minority shareholdings (**referred to as Section 'C' Companies**).

TYPES OF ENTITIES SUBJECT TO AUDIT

Table 1

| Section | Types of Audit | Number of Entities | |
|---------|--|--------------------|------------|
| | | 2021/2022 | 2020/2021 |
| (A) | Public Bodies and their Subsidiaries | 83 | 80 |
| (B) | National Government Owned Companies | 47 | 47 |
| (C) | National Government Shareholdings in other Companies | 2 | 2 |
| | | 132 | 129 |

Table 1. Shows the total of Types of Entities subject to Audit.

Chart 1

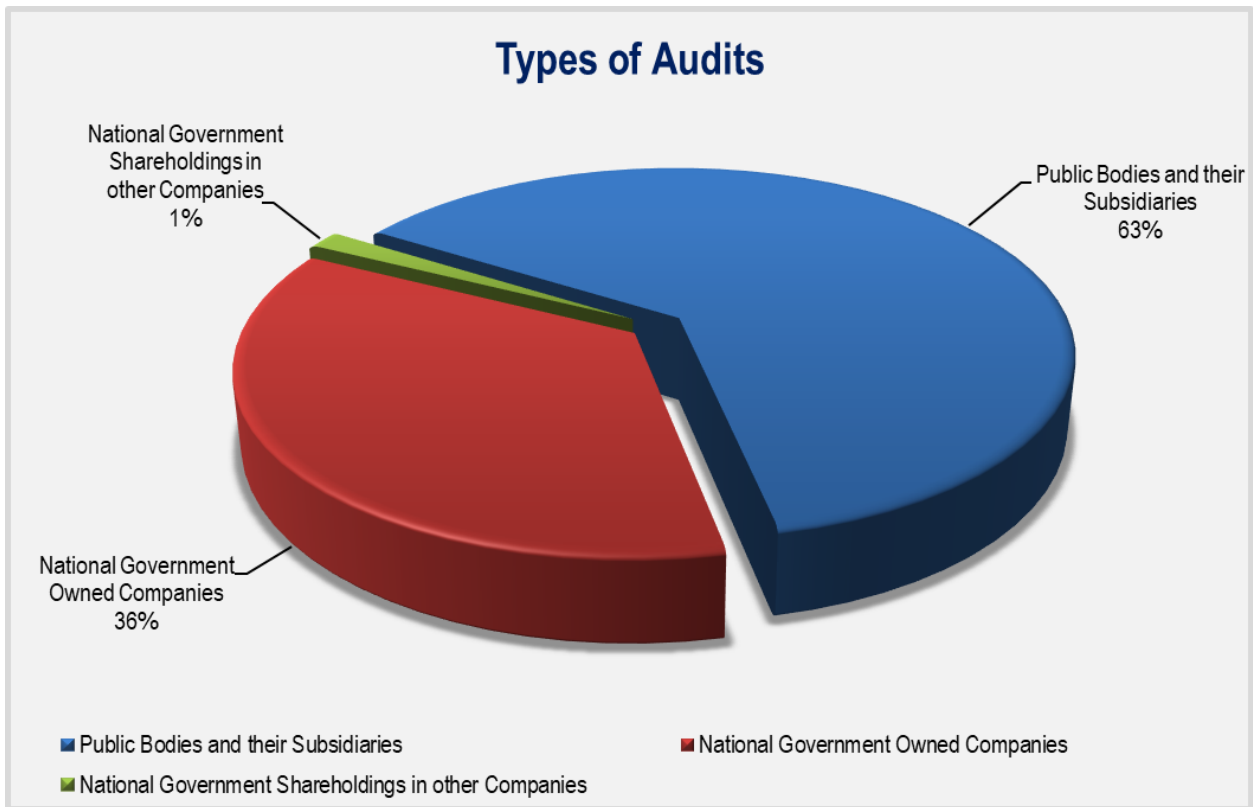


Chart 1. Shows the percentages of Types of Entities subject to Audit during 2021/2022 Audit Cycle.

85.5 STATUS OF CURRENT YEAR AUDITS

Each of the **132** entities, except Section ‘C’ Companies are subject to audit and required under *Section 63(3)(c)* of the *Public Finances (Management) Act, 1995 (as amended)* to submit annual financial statements for audit. Information available in my Office shows that only **51 entities** have submitted their financial statements for 2021 (**Schedule A**) for audit up to the time of preparing this Report. A total of **72** entities have not submitted their 2021 financial statements (**Schedule A**) for audit in 2022. It could therefore be logically concluded that, about **57%** of the public bodies might not have submitted their annual reports and financial statements for 2021 together with my reports on them, to the respective Ministers for tabling in the National Parliament on or before 30 April 2022.

Table 2 and **Chart 2** shown below, and **Schedule A** attached show the status of the current year audits.

STATUS OF CURRENT YEAR AUDITS 2021 BY ENTITIES

Table 2

| No. | Status of Current Year Audits | Number of Entities | |
|-----|--|--------------------|------------|
| | | 2021/2022 | 2020/2021 |
| 1 | Audits completed and reports issued thereon (Schedule A) | 4 | 3 |
| 2 | Audits substantially completed (Schedule A) | 3 | 0 |
| 3 | Audits in progress (Schedule A) | 35 | 38 |
| 4 | Audits to commence shortly (Schedule A) | 9 | 10 |
| 5 | Financial Statements not submitted (Schedule A) | 72 | 69 |
| 6 | Non Operational Entities/ Ceases Companies (Schedule D) | 3 | 7 |
| | | 126 | 127 |

Table 2. Shows the total of Status of Current Year (2020 Audits) (Schedule A).

Chart 2

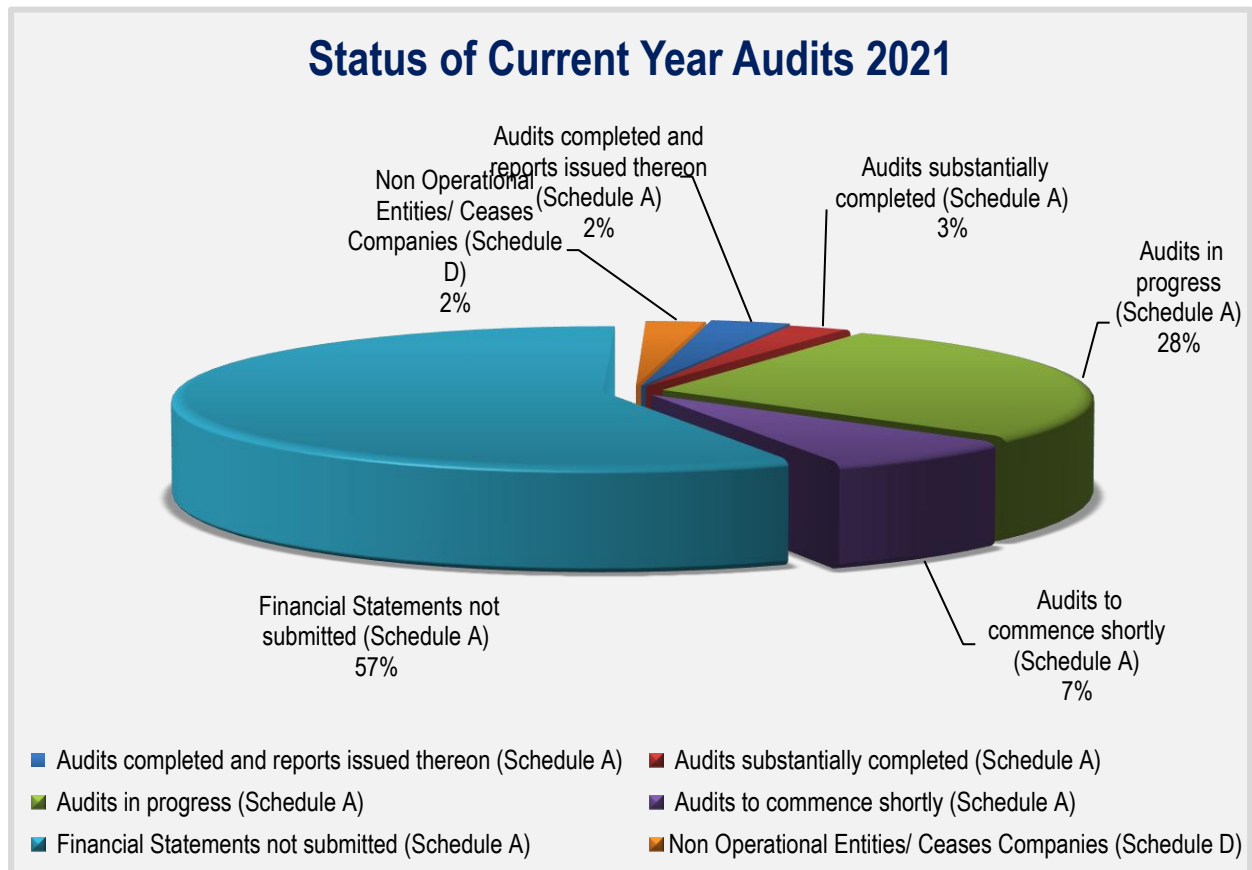


Chart 2. Shows the percentages of Audit Status for the Current Year (2021) during 2021/2022 Audit Cycle. (Schedule A).

85.6 AUDITS IN ARREARS (2020 AND PRIOR YEARS)

Records available in my Office show that a total of **52** entities (158 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 (2020 AND PRIOR YEARS)

Table 3A

| No. | Status of Audits in Arrears by No. of Entities (2020 and Prior Years) | Number of Entities | |
|-----|---|--------------------|------------|
| | | 2021/2022 | 2020/2021 |
| 1 | Audits substantially completed (Schedule B) | 58 | 38 |
| 2 | Audits in progress (Schedule B) | 34 | 31 |
| 3 | Audits to commence shortly (Schedule B) | 19 | 19 |
| 4 | Financial Statements not submitted (Schedule B) | 83 | 53 |
| | | 174 | 141 |

Chart 3A

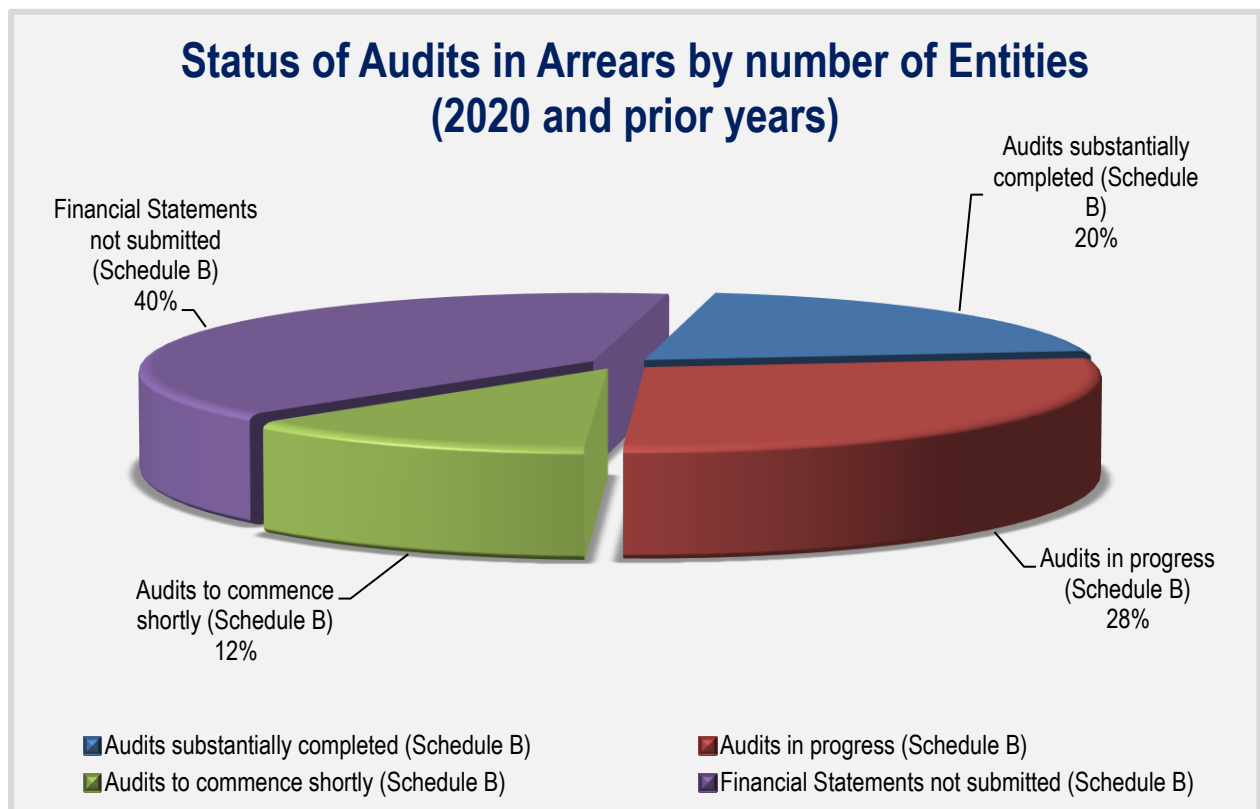


Chart 3A. Shows the percentages of Audit Status for Audits in Arrears by number of Entities for 2020 and Prior Years during 2021/2022 Audit Cycle. (Schedule B).

STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2020 AND PRIOR YEARS)

Table 3B

| No. | Status of Audits in Arrears by No. Of Audits (2020 & prior years) | Number of Audits | |
|-----|---|------------------|------------|
| | | 2021/2022 | 2020/2021 |
| 1 | Audits substantially completed (Schedule B) | 68 | 61 |
| 2 | Audits in progress (Schedule B) | 53 | 45 |
| 3 | Audits to commence shortly (Schedule B) | 36 | 34 |
| 4 | Financial Statements not submitted (Schedule B) | 158 | 128 |
| | | 315 | 268 |

Table 3B. Shows the Status of Audits in Arrears by number of Audits for 2020 and Prior Years during 2021/2022 Audit Cycle. (Schedule B).

Chart 3B

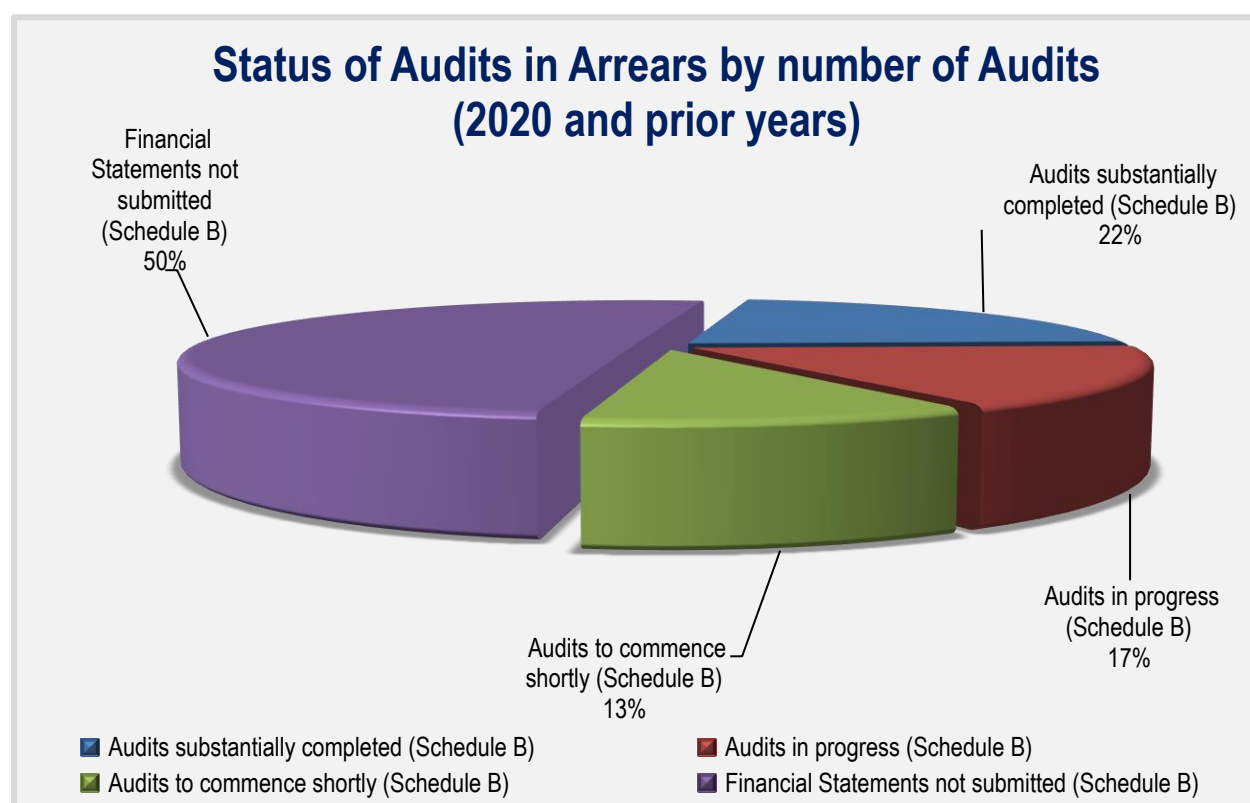


Chart 3B. Shows the percentages of Audit Status for Audits in Arrears by number of Audits for 2020 and Prior Years during 2021/2022 Audit Cycle. (Schedule B).

85.7 LONG OUTSTANDING FINANCIAL STATEMENTS

During this Audit Cycle (2021/2022), **52** audit entities were in the arrears category, increased by twenty-seven compared to prior year (2020). Of these **52** entities, **158** financial statements for periods ranging from one year to **9** years have still not been submitted. In other words, they still have financial statements outstanding for the years from **2012** to **2020**. 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 (2020 AND PRIOR YEARS)

Table 4A

| No. | Years Outstanding by Entities | Number of Entities | |
|-----|-------------------------------|--------------------|-------------|
| | | 2021 Report | 2020 Report |
| 1 | One Year (Schedule C) | 14 | 52 |
| 2 | Two Years (Schedule C) | 15 | 30 |
| 3 | Three Years (Schedule C) | 6 | 19 |
| 4 | Four Years (Schedule C) | 5 | 11 |
| 5 | Five Years (Schedule C) | 6 | 6 |
| 6 | Six Years (Schedule C) | 2 | 4 |
| 7 | Seven Years (Schedule C) | 0 | 4 |
| 8 | Eight Years (Schedule C) | 2 | 2 |
| 9 | Nine Years (Schedule C) | 2 | 0 |
| | | 52 | 128 |

Table 4A. Shows the total of Long Outstanding Financial Statements by number of Entities during 2021/2022 Audit Cycle. (Schedule C).

Chart 4A

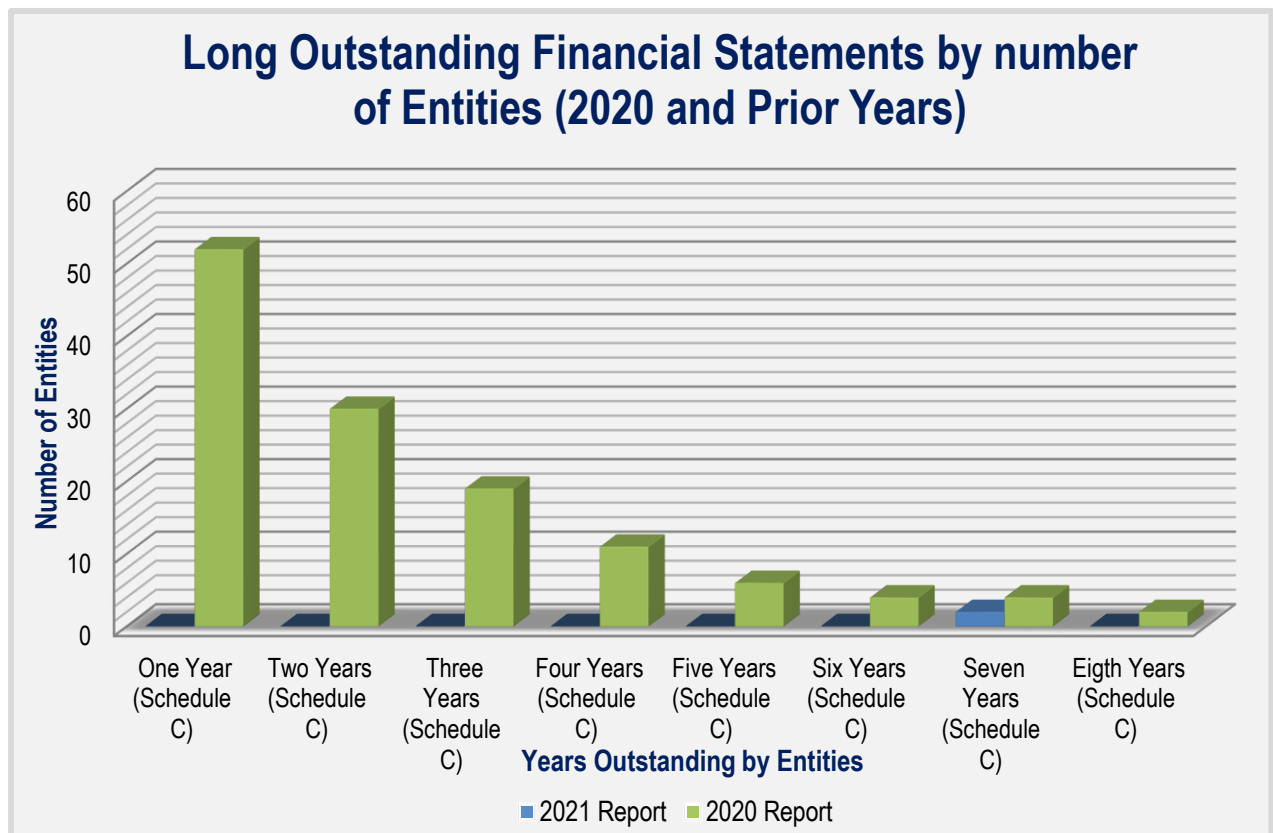


Chart 4A. Shows the percentages of Long Outstanding Financial Statements by number of Entities during 2021/2022 Audit Cycle (Schedule C).

**LONG OUTSTANDING FINANCIAL STATEMENTS
BY NUMBER OF AUDITS
(2020 AND PRIOR YEARS)**

Table 4B

| No. | Years Outstanding by Audits | Number of Audits | |
|-----|-----------------------------|------------------|-------------|
| | | 2021 Report | 2020 Report |
| 1 | One Year (Schedule C) | 14 | 52 |
| 2 | Two Years (Schedule C) | 30 | 60 |
| 3 | Three Years (Schedule C) | 18 | 54 |
| 4 | Four Years (Schedule C) | 20 | 44 |
| 5 | Five Years (Schedule C) | 30 | 30 |
| 6 | Six Years (Schedule C) | 12 | 24 |
| 7 | Seven Years (Schedule C) | 0 | 28 |
| 8 | Eight Years (Schedule C) | 16 | 16 |
| 9 | Nine Years (Schedule C) | 18 | 0 |
| | | 158 | 308 |

Table 4B. Shows the total of Long Outstanding Financial Statements by number of Audits during 2020/2021 Audit Cycle. (Schedule C).

Chart 4B

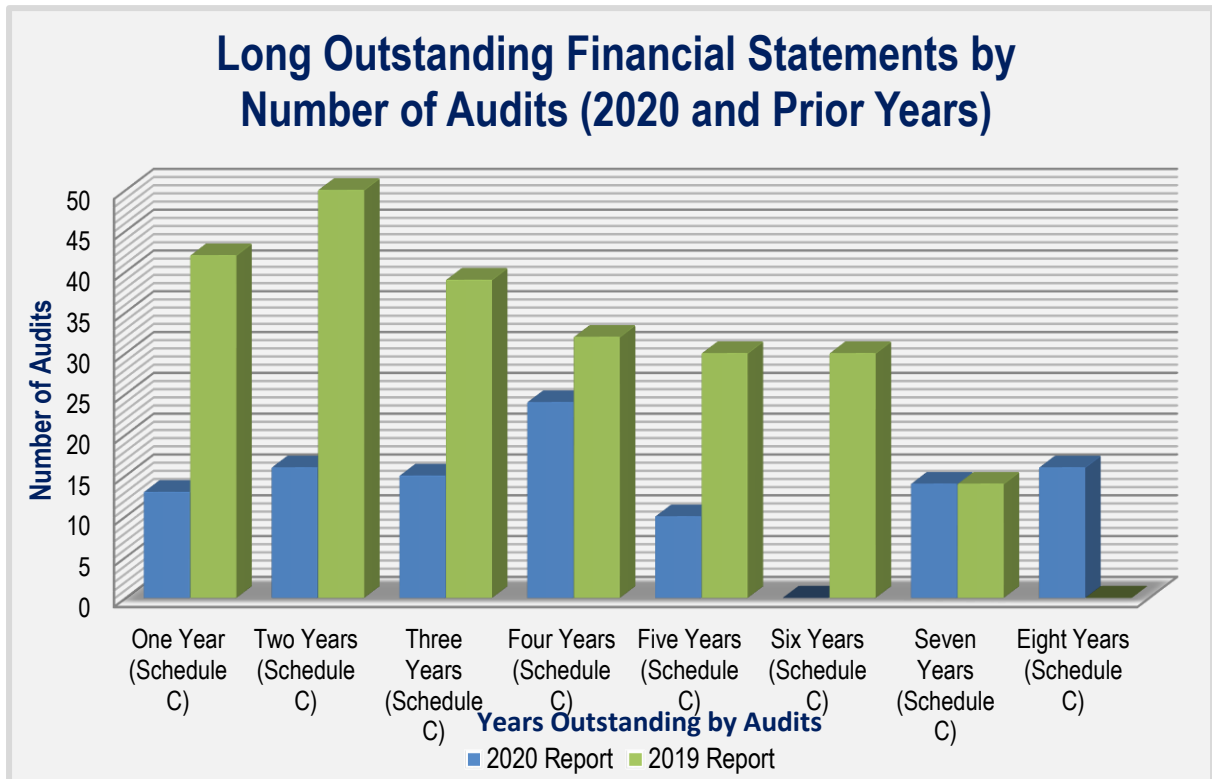


Chart 4B. Shows the percentages of Long Outstanding Financial Statements by number of Audits during 2021/2022 Audit Cycle. (Schedule C).

85.8 STATUS OF AUDITS AS AT 30 JUNE 2022

As illustrated in **Executive Summary Table A**, during July 2021 and June 2022 Audit Cycle, a **total of 526 audits** were undertaken by the Audit Office. Out of **526 audits** carried out, **85 audit reports** were issued. **Table 5** and **Chart 5** shown below provide the details of the Status of Audits during the period July 2021 to June 2022.

STATUS OF AUDITS AS AT 30 JUNE 2021

Table 5

| No. | Status of Audits | Number of Audits | |
|-----|--|------------------|-------------|
| | | 2021 Report | 2020 Report |
| 1 | Audits completed and reports issued thereon (Schedule A & E) | 86 | 95 |
| 2 | Audits substantially completed (Schedule A & B) | 71 | 61 |
| 3 | Audits in progress (Schedule A & B) | 88 | 83 |
| 4 | Audits to commence shortly (Schedule A & B) | 45 | 44 |
| 5 | Financial Statements not submitted (Schedule A & B) | 230 | 197 |
| 6 | Non Operational Entities/ Ceased Companies (Schedule D) | 6 | 7 |
| | | 526 | 487 |

Table 5. Shows the Status of Audits as at 30 June 2021 for the 2020/2021 Audit Cycle. (Schedules A&E and A&B).

Chart 5

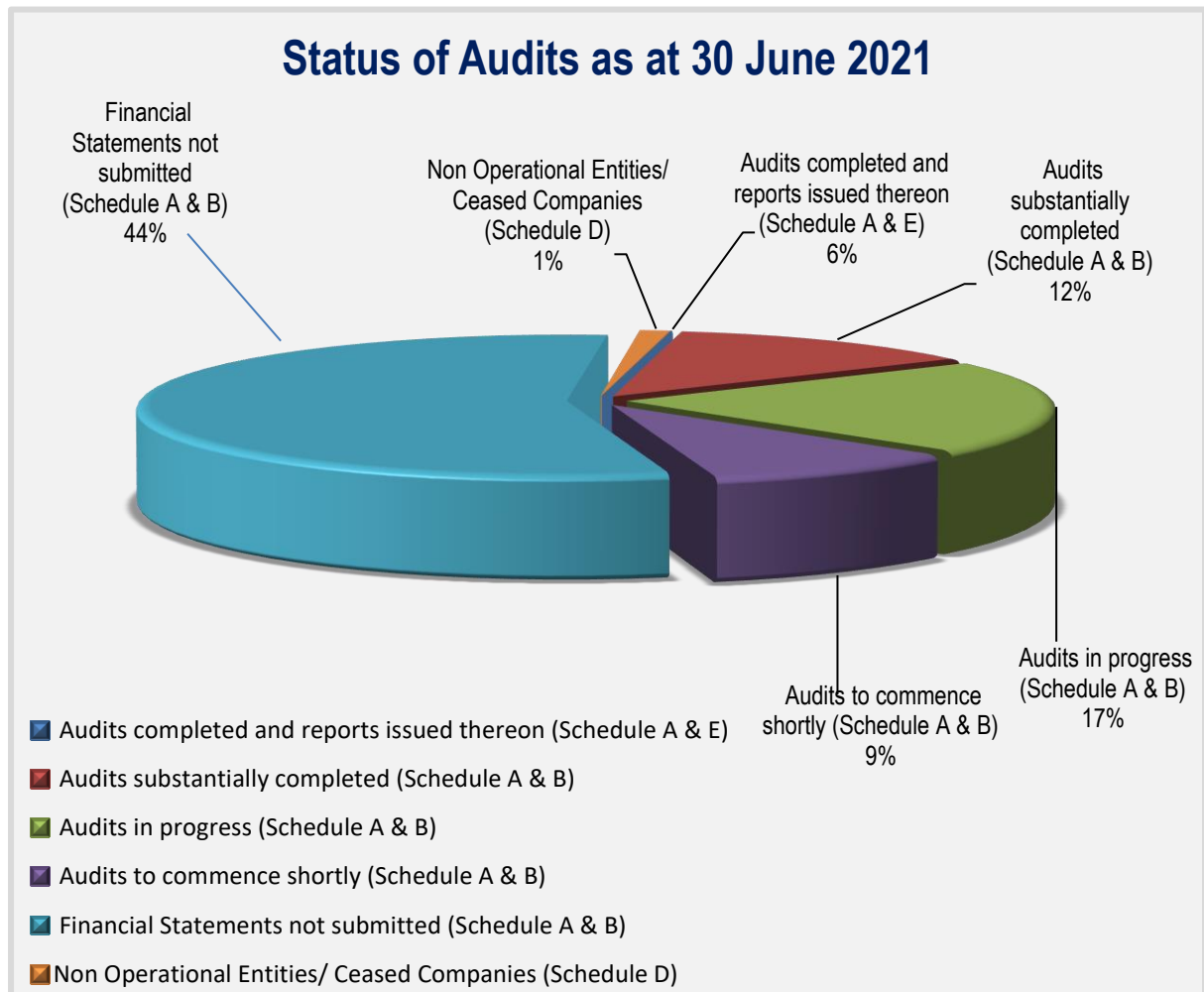


Chart 5. Shows the percentages of Audit Status as at 30 June 2021 for the 2021/2022 Audit Cycle (Schedules A&E and A&B)

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 27th OCTOBER
TWO THOUSAND AND TWENTY TWO**



GORDON KEGA MBA, CPA
Auditor-General of Papua New Guinea

SCHEDULES

Schedule 'A'

STATUS OF CURRENT YEAR (2021) AUDIT

(i) AUDITS COMPLETED AND REPORTS ISSUED THEREON

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|--|---------------|
| 1 | A | 2 | Bank of Papua New Guinea | 1 |
| 2 | A | 42 | Papua New Guinea Accident Investigation Commission | 1 |
| 3 | A | 48 | Papua New Guinea Maritime College | 1 |
| 4 | B | 71B. | Pacific Re Limited | 1 |
| | | | | 4 |

(ii) AUDITS SUBSTANTIALLY COMPLETED

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---|---------------|
| 1 | A | 4 | Civil Aviation Safety Authority of Papua New Guinea | 1 |
| 2 | A | 21 | National Agricultural Research Institute | 1 |
| 3 | A | 47 | Pacific Institute of Leadership and Governance | 1 |
| | | | | 3 |

(iii) AUDITS IN PROGRESS

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|--|---------------|
| 1 | A | 17 | Kumul Consolidated Holdings | 1 |
| 2 | A | 17A. | General Business Trust | 1 |
| 3 | A | 17B. | Kumul Technology Development Corporation Limited | 1 |
| 4 | A | 17C. | PNG Dams Limited | 1 |
| 5 | A | 19 | Mineral Resources Authority | 1 |
| 6 | A | 43 | Papua New Guinea Customs Service | 1 |
| 7 | B | 65 | Air Niugini Limited and its Subsidiaries | 1 |
| 8 | B | 67 | Kumul Petroleum Holdings Limited | 1 |
| 9 | B | 67A | Eda Oil Limited | 1 |
| 10 | B | 67B. | Kumul Exploration (Asia) Limited | 1 |
| 11 | B | 67H | Kumul Lending Co. Pte Limited | 1 |
| 12 | B | 67I | Kumul LNG Limited | 1 |
| 13 | B | 67J | Kumul Petroleum (Development) Limited | 1 |
| 14 | B | 67K | Kumul Petroleum (Investments) Limited | 1 |
| 15 | B | 67L | Kumul Petroleum (Kroton) Limited | 1 |
| 16 | B | 67M | Kumul Petroleum (Pipeline) Limited | 1 |
| 17 | B | 67N | Kumul Petroleum (Tech and Advisory) Limited | 1 |
| 18 | B | 67O | Kumul Petroleum Marketing Pte Limited | 1 |
| 19 | B | 67P | Kumul Security Agent Limited | 1 |
| 20 | B | 67Q | NCPC Oil Company Pty Limited | 1 |
| 21 | B | 68A. | Bmobile Limited and Subsidiary | 1 |
| 22 | B | 68A.1 | Bmobile (Solomon Islands) Limited | 1 |
| 23 | B | 71 | Motor Vehicles Insurance Limited | 1 |
| 24 | B | 71A. | Pacific MMI Insurance Limited | 1 |
| 25 | B | 73 | NCD Water and Sewerage Limited (Eda Ranu) | 1 |
| 26 | B | 74 | Papua New Guinea Ports Corporation Limited | 1 |

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|------------------------------|---------------|
| 27 | B | 76 | PNG DataCo Limited | 1 |
| 28 | B | 77 | PNG Power Limited | 1 |
| 29 | B | 78 | Post (PNG) Limited | 1 |
| 30 | B | 79 | Telikom (PNG) Limited | 1 |
| 31 | B | 79A. | DATEC (PNG) Limited | 1 |
| 32 | B | 79B. | Kalang Advertising Limited | 1 |
| 33 | B | 79C. | Media Niugini Limited (EMTV) | 1 |
| 34 | B | 79D. | PNG Directories Limited | 1 |
| 35 | B | 80 | Water PNG Limited | 1 |

35

(iv) AUDITS TO COMMENCE SHORTLY

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---|---------------|
| 1 | A | 5 | Climate Change and Development Authority | 1 |
| 2 | A | 11 | Independent Fellowship Trust | 1 |
| 3 | A | 22 | National AIDS Council Secretariat | 1 |
| 4 | A | 25 | National Cultural Commission | 1 |
| 5 | A | 31 | National Information and Communication Technology Authority | 1 |
| 6 | A | 36 | National Training Council | 1 |
| 7 | A | 41 | Ombudsman Commission of Papua New Guinea | 1 |
| 8 | A | 53 | PNG Road Fund | 1 |
| 9 | A | 58 | Small and Medium Enterprises Corporation | 1 |

9

(v) FINANCIAL STATEMENTS NOT SUBMITTED

| No. | Section | Para. No. | Entity | No. of Audits | Last Report Issued | Date of Report |
|-----|---------|-----------|---|---------------|--------------------|----------------|
| 1 | A | 3A. | Papua New Guinea Maritime Transport Limited | 1 | 2012 | 29-Oct-15 |
| 2 | A | 6 | Cocoa Board of Papua New Guinea | 1 | 2018 | 7-Sep-21 |
| 3 | A | 6A. | Cocoa Pod Borer Project Fund | 1 | 2018 | 7-Sep-21 |
| 4 | A | 6B. | Cocoa Stabilisation Fund | 1 | 2018 | 7-Sep-21 |
| 5 | A | 8 | Coffee Industry Corporation Limited | 1 | 2018 | 18-Jun-21 |
| 6 | A | 8A. | Coffee Industry Fund | 1 | 2018 | 18-Jun-21 |
| 7 | A | 8B. | Kofi Management Services Limited | 1 | 2018 | 18-Jun-21 |
| 8 | A | 8C. | Patana No. 61 Limited | 1 | 2018 | 18-Jun-21 |
| 9 | A | 9 | Conservation and Environment Protection Authority | 1 | 2018 | 18-Jun-21 |
| 10 | A | 10 | Government Printing Office | 1 | 2017 | 22-Jun-20 |
| 11 | A | 12 | Independent Consumers and Competition Commission | 1 | 2019 | 30-Jun-21 |
| 12 | A | 13 | Industrial Centers Development Corporation | 1 | 2018 | 20-Oct-20 |
| 13 | A | 14 | Internal Revenue Commission. | 1 | 2017 | 22-Jun-22 |
| 14 | A | 15 | Investment Promotion Authority | 1 | 2020 | 14-Feb-22 |
| 15 | A | 16 | Kokonasi Industri Koporesen | 1 | 2020 | 8-Jun-22 |
| 16 | A | 16A. | Papua New Guinea Coconut Extension Fund | 1 | 2018 | 29-May-20 |
| 17 | A | 16B. | Papua New Guinea Coconut Research Fund | 1 | 2018 | 29-May-20 |
| 18 | A | 18 | Legal Training Institute | 1 | 2020 | 25-Feb-22 |
| 19 | A | 20 | National Agriculture Quarantine & Inspection Authority | 1 | 2018 | 29-Mar-21 |
| 20 | A | 23 | National Broadcasting Commission Limited | 1 | 2016 | 10-Feb-21 |
| 21 | A | 24 | National Capital District Commission | 1 | 2019 | 25-Feb-22 |
| 22 | A | 24A. | National Capital District Botanical Enterprises Limited | 1 | 2019 | 15-Jun-21 |

| No. | Section | Para. No. | Entity | No. of Audits | Last Report Issued | Date of Report |
|-----|---------|-----------|--|---------------|------------------------------|----------------|
| 23 | A | 24B. | Port Moresby Nature Park Limited | 1 | 2018 | 5-Oct-21 |
| 24 | A | 26 | National Economic and Fiscal Commission | 1 | 2018 | 10-Oct-19 |
| 25 | A | 27 | National Energy Authority | 1 | New Inclusion | |
| 26 | A | 28 | National Fisheries Authority | 1 | 2018 | 29-Jun-21 |
| 27 | A | 29 | National Gaming Control Board | 1 | 2016 | 25-Feb-22 |
| 28 | A | 29A. | National Gaming Control Board Community Benefit Fund Trust. | 1 | 2016 | 25-Feb-22 |
| 29 | A | 30 | National Housing Corporation | 1 | 2014 | 21-Nov-17 |
| 30 | A | 30A. | National Housing Estate Limited | 1 | No reports issued since 2010 | |
| 31 | A | 32 | National Maritime Safety Authority | 1 | 2019 | 31-May-21 |
| 32 | A | 33 | National Museum & Art Gallery | 1 | 2020 | 10-May-22 |
| 33 | A | 34 | National Research Institute | 1 | 2017 | 17-Nov-20 |
| 34 | A | 37 | National Volunteer Service | 1 | 2016 | 29-May-17 |
| 35 | A | 38 | National Youth Development Authority | 1 | 2017 | 14-Oct-19 |
| 36 | A | 39 | Office of the Insurance Commissioner | 1 | 2018 | 31-May-21 |
| 37 | A | 40 | Oil Palm Industry Corporation | 1 | 2013 | 03-Mar-22 |
| 38 | A | 44 | Papua New Guinea Forest Authority | 1 | 2015 | 3-Mar-22 |
| 39 | A | 45 | Papua New Guinea Immigration and Citizenship Services Authority | 1 | 2017 | 13-May-19 |
| 40 | A | 46 | Papua New Guinea Institute of Medical Research | 1 | 2020 | 30-Jun-22 |
| 41 | A | 49 | Papua New Guinea National Institute Standard Industrial Technology | 1 | 2019 | 10-May-22 |
| 42 | A | 50 | Papua New Guinea Sports Foundation | 1 | 2015 | 30-Apr-19 |
| 43 | A | 51 | Papua New Guinea University of Technology | 1 | 2018 | 01-Sep-21 |
| 44 | A | 51A. | National Analytical & Testing Services Limited. | 1 | 2017 | 30-Sep-21 |
| 45 | A | 51B. | Unitech Development and Consultancy Company Limited | 1 | 2017 | 31-Mar-21 |
| 46 | A | 52 | Parliamentary Members' Retirement Benefit Fund | 1 | 2016 | 28-Feb-18 |
| 47 | A | 54 | Public Curator of Papua New Guinea | 1 | 2013 | 18-Oct-17 |
| 48 | A | 55 | Road Traffic Authority | 1 | 2020 | 21-Jun-22 |
| 49 | A | 56 | Securities Commission of Papua New Guinea | 1 | 2020 | 29-Jun-22 |
| 50 | A | 57 | Security Industries Authority | 1 | 2016 | 21-Apr-20 |
| 51 | A | 59 | Tourism Promotion Authority | 1 | 2019 | 06-Jul-21 |
| 52 | A | 60 | University of Goroka | 1 | 2017 | 07-Apr-21 |
| 53 | A | 60A. | Unigor Consultancy Limited | 1 | 2015 | 27-Apr-20 |
| 54 | A | 60B. | Unigor Humi Catering Limited | 1 | 2015 | 06-Apr-22 |
| 55 | A | 61 | University of Natural Resources & Environment | 1 | 2014 | 29-Oct-16 |
| 56 | A | 62 | University of Papua New Guinea | 1 | 2015 | 21-Feb-22 |
| 57 | A | 62A. | Unisave Limited | 1 | 2011 | 25-Aug-14 |
| 58 | A | 62B. | Univentures Limited | 1 | 2011 | 24-Jun-14 |
| 59 | A | 63 | Western Pacific University | 1 | No reports issued since 2015 | |
| 60 | B | 65A. | Air Niugini Cargo Limited | 1 | 2020 | 15-Jun-22 |
| 61 | B | 65B. | Air Niugini Properties Limited | 1 | No reports issued since 2018 | |
| 62 | B | 65C. | Business Travel Centre Limited | 1 | No reports issued since 2017 | |
| 63 | B | 65D. | Link-PNG Limited | 1 | 2015 | 13-Dec-17 |
| 64 | B | 66 | Kumul Agriculture Limited | 1 | 2019 | 27-Sep-21 |
| 65 | B | 67G | Kumul Gas Niugini B.V. | 1 | No reports issued since 2017 | |
| 66 | B | 68 | Kumul Telikom Holdings Limited | 1 | No reports issued since 2018 | |
| 67 | B | 69 | Livestock Development Corporation Limited | 1 | 2009 | 31-Oct-12 |
| 68 | B | 70 | Mineral Resources Development Company Limited | 1 | 2018 | 17-Mar-22 |
| 69 | B | 72 | National Airports Corporation Limited | 1 | No reports issued since 2020 | |
| 70 | B | 72A. | Airports City Development Limited | 1 | No reports issued since 2019 | |
| 71 | B | 72B. | Airport Investments Limited | 1 | No reports issued since 2019 | |
| 72 | B | 75 | PNG Air Services Limited | 1 | No reports issued since 2016 | |

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Schedule 'B'

STATUS OF AUDITS IN ARREARS (2020 AND PRIOR YEARS)

(i) AUDITS SUBSTANTIALLY COMPLETED

| No. | Section | Para. No. | Entity | Year | No. of Audits |
|-----|---------|-----------|--|-------------|---------------|
| 1 | A | 3 | Border Development Authority | 2014 | 1 |
| 2 | A | 8 | Coffee Industry Corporation Limited | 2019 | 1 |
| 3 | A | 8A. | Coffee Industry Fund | 2019 | 1 |
| 4 | A | 8B. | Kofi Management Services Limited | 2019 | 1 |
| 5 | A | 8C. | Patana No. 61 Limited | 2019 | 1 |
| 6 | A | 9 | Conservation and Environment Protection Authority | 2018 | 1 |
| 7 | A | 10 | Government Printing Office | 2018 - 2020 | 3 |
| 8 | A | 20 | National Agriculture Quarantine & Inspection Authority | 2018 | 1 |
| 9 | A | 23 | National Broadcasting Commission Limited | 2017 | 1 |
| 10 | A | 30A. | National Housing Estate Limited | 2010 - 2014 | 5 |
| 11 | A | 34 | National Research Institute | 2018 - 2020 | 3 |
| 12 | A | 41 | Ombudsman Commission of Papua New Guinea | 2019 & 2020 | 2 |
| 13 | A | 47 | Pacific Institute of Leadership and Governance | 2018 - 2020 | 3 |
| 14 | A | 52 | Parliamentary Members' Retirement Benefit Fund | 2017 - 2020 | 4 |
| 15 | A | 54 | Public Curator of Papua New Guinea | 2014 | 1 |
| 16 | A | 57 | Security Industries Authority | 2017 - 2020 | 4 |
| 17 | A | 58 | Small and Medium Enterprises Corporation | 2018 & 2019 | 2 |
| 18 | A | 59 | Tourism Promotion Authority | 2020 | 1 |
| 19 | A | 61 | University of Natural Resources & Environment | 2015 | 1 |
| 20 | A | 63 | Western Pacific University | 2015 - 2018 | 4 |
| 21 | B | 65D. | Link-PNG Limited | 2016 | 1 |
| 22 | B | 67 | Kumul Petroleum Holdings Limited | 2020 | 1 |
| 23 | B | 67A | Eda Oil Limited | 2019 | 1 |
| 24 | B | 67B. | Kumul Exploration (Asia) Limited | 2019 | 1 |
| 25 | B | 67H | Kumul Lending Co. Pte Limited | 2019 | 1 |
| 26 | B | 67I | Kumul LNG Limited | 2020 | 1 |
| 27 | B | 67J | Kumul Petroleum (Development) Limited | 2017 & 2018 | 2 |
| 28 | B | 67K | Kumul Petroleum (Investments) Limited | 2020 | 1 |
| 29 | B | 67L | Kumul Petroleum (Kroton) Limited | 2020 | 1 |
| 30 | B | 67M | Kumul Petroleum (Pipeline) Limited | 2020 | 1 |
| 31 | B | 67N | Kumul Petroleum (Tech and Advisory) Limited | 2020 | 1 |
| 32 | B | 67O | Kumul Petroleum Marketing Pte Limited | 2019 | 1 |
| 33 | B | 67P | Kumul Security Agent Limited | 2019 | 1 |
| 34 | B | 69 | Livestock Development Corporation Limited | 2010 - 2018 | 9 |
| 35 | B | 72 | National Airports Corporation Limited | 2020 | 1 |
| 36 | B | 72A. | Airports City Development Limited | 2019 | 1 |
| 37 | B | 72B. | Airport Investments Limited | 2019 | 1 |
| 38 | B | 77 | PNG Power Limited | 2019 | 1 |
| | | | | | |

(ii) AUDITS IN PROGRESS

| No. | Section | Para. No. | Entity | Year | No. of Audits |
|-----|---------|-----------|--|-------------|---------------|
| 1 | A | 9 | Conservation and Environment Protection Authority | 2019 | 1 |
| 2 | A | 20 | National Agriculture Quarantine & Inspection Authority | 2019 | 1 |
| 3 | A | 24 | National Capital District Commission and its Subsidiaries | 2020 | 1 |
| 4 | A | 24B. | Port Moresby Nature Park Limited | 2019 & 2020 | 2 |
| 5 | A | 28 | National Fisheries Authority | 2019 & 2020 | 2 |
| 6 | A | 29 | National Gaming Control Board and its Subsidiary | 2017 | 1 |
| 7 | A | 29A. | National Gaming Control Board Community Benefit Fund Trust. | 2017 | 1 |
| 8 | A | 31 | National Information and Communication Technology Authority | 2018 | 1 |
| 9 | A | 40 | Oil Palm Industry Corporation | 2014 | 1 |
| 10 | A | 43 | Papua New Guinea Customs Service | 2019 - 2020 | 2 |
| 11 | A | 44 | Papua New Guinea Forest Authority | 2016 - 2018 | 3 |
| 12 | A | 51 | Papua New Guinea University of Technology and its Subsidiaries | 2019 & 2020 | 2 |
| 13 | A | 54 | Public Curator of Papua New Guinea | 2015 - 2017 | 3 |
| 14 | B | 65A. | Air Niugini Cargo Limited | 2017 & 2018 | 2 |
| 15 | B | 65B. | Air Niugini Properties Limited | 2018 | 1 |
| 16 | B | 65C. | Business Travel Centre Limited | 2017 & 2018 | 2 |
| 17 | B | 65D. | Link-PNG Limited | 2017 & 2018 | 2 |
| 18 | B | 67A | Eda Oil Limited | 2020 | 1 |
| 19 | B | 67B. | Kumul Exploration (Asia) Limited | 2020 | 1 |
| 20 | B | 67H | Kumul Lending Co. Pte Limited | 2020 | 1 |
| 21 | B | 67O | Kumul Petroleum Marketing Pte Limited | 2020 | 1 |
| 22 | B | 67P | Kumul Security Agent Limited | 2020 | 1 |
| 23 | B | 67Q | NCPC Oil Company Pty Limited | 2015 - 2020 | 6 |
| 24 | B | 68A.1 | Bmobile (Solomon Islands) Limited | 2018 - 2020 | 3 |
| 25 | B | 70 | Mineral Resources Development Company Limited | 2019 & 2020 | 2 |
| 26 | B | 71A. | Pacific MMI Insurance Limited | 2020 | 1 |
| 27 | B | 71B. | Pacific Re Limited | 2020 | 1 |
| 28 | B | 72A. | Airports City Development Limited | 2020 | 1 |
| 29 | B | 72B. | Airport Investments Limited | 2020 | 1 |
| 30 | B | 73 | NCD Water and Sewerage Limited (Eda Ranu) | 2020 | 1 |
| 31 | B | 77 | PNG Power Limited | 2020 | 1 |
| 32 | B | 79C. | Media Niugini Limited (EMTV) | 2020 | 1 |
| 33 | B | 79D. | PNG Directories Limited | 2020 | 1 |
| | | | | | |

(iii) AUDITS TO COMMENCE SHORTLY

| No. | Section | Para. No. | Entity | Year | No. of Audits |
|-----|---------|-----------|---|-------------|---------------|
| 1 | A | 3 | Border Development Authority and its Subsidiary | 2015 - 2017 | 3 |
| 2 | A | 5 | Climate Change and Development Authority | 2020 | 1 |
| 3 | A | 6 | Cocoa Board of Papua New Guinea and its Subsidiaries | 2019 & 2020 | 2 |
| 4 | A | 12 | Independent Consumers and Competition Commission | 2020 | 1 |
| 5 | A | 14 | Internal Revenue Commission. | 2018 & 2019 | 2 |
| 6 | A | 16A. | Papua New Guinea Coconut Extension Fund | 2019 & 2020 | 2 |
| 7 | A | 16B. | Papua New Guinea Coconut Research Fund | 2019 & 2020 | 2 |
| 8 | A | 23 | National Broadcasting Commission Limited | 2018 | 1 |
| 9 | A | 29 | National Gaming Control Board and its Subsidiary | 2018 & 2019 | 2 |
| 10 | A | 29A. | National Gaming Control Board Community Benefit Fund Trust. | 2018 & 2019 | 2 |
| 11 | A | 30 | National Housing Corporation and its Subsidiary | 2015 - 2020 | 6 |
| 12 | A | 31 | National Information and Communication Technology Authority | 2019 - 2020 | 2 |
| 13 | A | 32 | National Maritime Safety Authority | 2020 | 1 |
| 14 | A | 35 | National Roads Authority | 2020 | 1 |
| 15 | A | 36 | National Training Council | 2020 | 1 |
| 16 | A | 51A. | National Analytical & Testing Services Limited. | 2018 & 2019 | 2 |
| 17 | A | 51B. | Unitech Development and Consultancy Company Limited | 2018 & 2019 | 2 |
| 18 | A | 53 | PNG Road Fund | 2021 | 1 |
| 19 | A | 58 | Small and Medium Enterprises Corporation | 2020 | 1 |
| 20 | A | 62 | University of Papua New Guinea and its Subsidiaries | 2016 & 2017 | 2 |

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(iv) FINANCIAL STATEMENTS NOT SUBMITTED

| No. | Section | Para. No. | Entity | Year | No. of Audits |
|-----|---------|-----------|---|-------------|---------------|
| 1 | A | 3 | Border Development Authority and its Subsidiary | 2018 & 2019 | 2 |
| 2 | A | 3A. | Papua New Guinea Maritime Transport Limited | 2013 - 2020 | 8 |
| 3 | A | 6A. | Cocoa Pod Borer Project Fund | 2019 - 2020 | 2 |
| 4 | A | 6B. | Cocoa Stabilisation Fund | 2019 - 2020 | 2 |
| 5 | A | 7 | Cocoa Coconut Institute of Papua New Guinea | 2017 & 2018 | 2 |
| 6 | A | 8 | Coffee Industry Corporation Limited and its Subsidiaries | 2020 | 1 |
| 7 | A | 8A. | Coffee Industry Fund | 2020 | 1 |
| 8 | A | 8B. | Kofi Management Services Limited | 2020 | 1 |
| 9 | A | 8C. | Patana No. 61 Limited | 2020 | 1 |
| 10 | A | 9 | Conservation and Environment Protection Authority | 2020 | 1 |
| 11 | A | 13 | Industrial Centers Development Corporation | 2019 - 2020 | 2 |
| 12 | A | 14 | Internal Revenue Commission. | 2020 & 2020 | 1 |
| 13 | A | 20 | National Agriculture Quarantine & Inspection Authority | 2020 | 2 |
| 14 | A | 23 | National Broadcasting Commission Limited | 2019 - 2020 | 2 |
| 15 | A | 24 | National Capital District Commission and its Subsidiaries | 2020 | 1 |
| 16 | A | 24A. | National Capital District Botanical Enterprises Limited | 2013 - 2020 | 8 |
| 17 | A | 26 | National Economic and Fiscal Commission | 2019 - 2020 | 2 |
| 18 | A | 29 | National Gaming Control Board and its Subsidiary | 2020 | 1 |
| 19 | A | 29A. | National Gaming Control Board Community Benefit Fund Trust. | 2020 | 21 |
| 20 | A | 30A. | National Housing Estate Limited | 2015 - 2020 | 6 |
| 21 | A | 37 | National Volunteer Service | 2017 - 2020 | 4 |
| 22 | A | 38 | National Youth Development Authority | 2018 - 2020 | 3 |
| 23 | A | 39 | Office of the Insurance Commissioner | 2019 - 2020 | 2 |
| 24 | A | 40 | Oil Palm Industry Corporation | 2015 - 2020 | 6 |
| 25 | A | 44 | Papua New Guinea Forest Authority | 2019 - 2020 | 2 |

| No. | Section | Para. No. | Entity | Year | No. of Audits |
|-----|---------|-----------|--|-------------|---------------|
| 26 | A | 45 | Papua New Guinea Immigration and Citizenship Services Authority | 2018 - 2020 | 3 |
| 27 | A | 49 | Papua New Guinea National Institute Standard Industrial Technology | 2020 | 1 |
| 28 | A | 50 | Papua New Guinea Sports Foundation | 2016 - 2020 | 5 |
| 29 | A | 51A. | National Analytical & Testing Services Limited. | 2020 | 1 |
| 30 | A | 51B. | Unitech Development and Consultancy Company Limited | 2020 | 1 |
| 31 | A | 54 | Public Curator of Papua New Guinea | 2018 - 202 | 3 |
| 32 | A | 60 | University of Goroka and its Subsidiaries | 2018 - 2020 | 3 |
| 33 | A | 60A. | Unigor Consultancy Limited | 2016 - 2020 | 5 |
| 34 | A | 60B. | Unigor Humi Catering Limited | 2016 - 2020 | 5 |
| 35 | A | 61 | University of Natural Resources & Environment | 2016 - 2020 | 5 |
| 36 | A | 62 | University of Papua New Guinea and its Subsidiaries | 2018 - 2020 | 3 |
| 37 | A | 62A. | Unisave Limited | 2012 - 2020 | 9 |
| 38 | A | 62B. | Univentures Limited | 2012 - 2020 | 9 |
| 39 | A | 63 | Western Pacific University | 2019 - 2020 | 2 |
| 40 | B | 65A. | Air Niugini Cargo Limited | 2019 - 2020 | 2 |
| 41 | B | 65B. | Air Niugini Properties Limited | 2019 - 2020 | 2 |
| 42 | B | 65C. | Business Travel Centre Limited | 2019 - 2020 | 2 |
| 43 | B | 65D. | Link-PNG Limited | 2019 - 2020 | 2 |
| 44 | B | 66 | Kumul Agriculture Limited | 2020 | 1 |
| 45 | B | 67C | Kumul Gas Foreland 239 B.V | 2016 - 2020 | 5 |
| 46 | B | 67D | Kumul Gas Foreland 261 B.V | 2017 - 2020 | 4 |
| 47 | B | 67E | Kumul Gas Foreland 268 B.V. | 2017 - 2020 | 4 |
| 48 | B | 67F | Kumul Gas Foreland 269 B.V. | 2017 - 2020 | 4 |
| 49 | B | 67G | Kumul Gas Niugini B.V. | 2017 - 2020 | 4 |
| 50 | B | 68 | Kumul Telikom Holdings Limited and its Subsidiaries | 2018 - 2020 | 3 |
| 51 | B | 69 | Livestock Development Corporation Limited | 2019 - 2020 | 2 |
| 52 | B | 70 | Mineral Resources Development Company Limited | 2020 | 1 |
| 53 | B | 75 | PNG Air Services Limited | 2016 - 2020 | 5 |

Schedule 'C'

LONG OUTSTANDING FINANCIAL STATEMENTS (2020 & PRIOR YEARS)

(i) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN ONE (1) YEAR

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|--|---------------|
| 1 | A | 8 | Coffee Industry Corporation Limited and its Subsidiaries | 1 |
| 2 | A | 8A. | Coffee Industry Fund | 1 |
| 3 | A | 8B. | Kofi Management Services Limited | 1 |
| 4 | A | 8C. | Patana No. 61 Limited | 1 |
| 5 | A | 9 | Conservation and Environment Protection Authority | 1 |
| 6 | A | 14 | Internal Revenue Commission. | 1 |
| 7 | A | 20 | National Agriculture Quarantine & Inspection Authority | 1 |
| 8 | A | 29 | National Gaming Control Board and its Subsidiary | 1 |
| 9 | A | 29A. | National Gaming Control Board Community Benefit Fund Trust. | 1 |
| 10 | A | 49 | Papua New Guinea National Institute Standard Industrial Technology | 1 |
| 11 | A | 51A. | National Analytical & Testing Services Limited. | 1 |
| 12 | A | 51B. | Unitech Development and Consultancy Company Limited | 1 |
| 13 | B | 66 | Kumul Agriculture Limited | 1 |
| 14 | B | 70 | Mineral Resources Development Company Limited | 1 |

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(ii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN TWO (2) YEARS

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---|---------------|
| 1 | A | 3 | Border Development Authority and its Subsidiary | 2 |
| 2 | A | 6A. | Cocoa Pod Borer Project Fund | 2 |
| 3 | A | 6B. | Cocoa Stabilisation Fund | 2 |
| 4 | A | 7 | Cocoa Coconut Institute of Papua New Guinea | 2 |
| 5 | A | 13 | Industrial Centers Development Corporation | 2 |
| 6 | A | 23 | National Broadcasting Commission Limited | 2 |
| 7 | A | 26 | National Economic and Fiscal Commission | 2 |
| 8 | A | 39 | Office of the Insurance Commissioner | 2 |
| 9 | A | 44 | Papua New Guinea Forest Authority | 2 |
| 10 | A | 63 | Western Pacific University | 2 |
| 11 | B | 65A. | Air Niugini Cargo Limited | 2 |
| 12 | B | 65B. | Air Niugini Properties Limited | 2 |
| 13 | B | 65C. | Business Travel Centre Limited | 2 |
| 14 | B | 65D. | Link-PNG Limited | 2 |
| 15 | B | 69 | Livestock Development Corporation Limited | 2 |

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(iii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN THREE (3) YEARS

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---|---------------|
| 1 | A | 38 | National Youth Development Authority | 3 |
| 2 | A | 45 | Papua New Guinea Immigration and Citizenship Services Authority | 3 |
| 3 | A | 54 | Public Curator of Papua New Guinea | 3 |
| 4 | A | 60 | University of Goroka and its Subsidiaries | 3 |
| 5 | A | 62 | University of Papua New Guinea and its Subsidiaries | 3 |
| 6 | B | 68 | Kumul Telikom Holdings Limited and its Subsidiaries | 3 |
| | | | | 18 |

(iv) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FOUR (4) YEARS

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|-----------------------------|---------------|
| 1 | A | 37 | National Volunteer Service | 4 |
| 2 | B | 67D | Kumul Gas Foreland 261 B.V | 4 |
| 3 | B | 67E | Kumul Gas Foreland 268 B.V. | 4 |
| 4 | B | 67F | Kumul Gas Foreland 269 B.V. | 4 |
| 5 | B | 67G | Kumul Gas Niugini B.V. | 4 |
| | | | | 20 |

(v) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FIVE (5) YEARS

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---|---------------|
| 1 | A | 50 | Papua New Guinea Sports Foundation | 5 |
| 2 | A | 60A. | Unigor Consultancy Limited | 5 |
| 3 | A | 60B. | Unigor Humi Catering Limited | 5 |
| 4 | A | 61 | University of Natural Resources & Environment | 5 |
| 5 | B | 67C | Kumul Gas Foreland 239 B.V | 5 |
| 6 | B | 75 | PNG Air Services Limited | 5 |
| | | | | 30 |

(vi) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN SIX (6) YEARS

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---------------------------------|---------------|
| 1 | A | 30A. | National Housing Estate Limited | 6 |
| 2 | A | 40 | Oil Palm Industry Corporation | 6 |
| | | | | 12 |

(vii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN SEVEN (7) YEARS

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---|---------------|
| 1 | A | 3A. | Papua New Guinea Maritime Transport Limited | 8 |
| 2 | A | 24A. | National Capital District Botanical Enterprises Limited | 8 |
| | | | | 16 |

(ix) **FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN NINE (9) YEARS**

| No. | Section | Para. No. | Entity | No. of Audits |
|------------|----------------|------------------|---------------------|----------------------|
| 1 | A | 62A. | Unisave Limited | 9 |
| 2 | A | 62B. | Univentures Limited | 9 |
| | | | | 18 |
| <hr/> | | | | <hr/> |
| 52 | | | | 158 |
| <hr/> | | | | <hr/> |

Schedule 'D'

NON OPERATIONAL ENTITIES / CEASED COMPANIES AND OTHERS

(i) AUDIT PORTFOLIOS CEASED IN 2020/2021 AUDIT CYCLE

| No. | Section | Para. No. | Entity | Remarks |
|-----|---------|-----------|---|--|
| 1 | A | 2 | APEC Papua New Guinea 2018 Co-ordination Authority | The Authority had extinc as it was set as a short term entity for the duration of the APEC 20218 meetings preparation and hosting. |
| 2 | A | 4 | Border Development Authority | The Authority was abolished by the Parliament in 2019. |
| 3 | A | 8 | Cocoa Coconut Institute Limited of Papua New Guinea | The Management had advised that the Company had been liquidated and deregistered in 2018. |
| 4 | B | 64C | Kumul Gas Foreland 239 B.V | The Company had been deregistered under the Netherlands Civil Code. |
| 5 | B | 64D | Kumul Gas Foreland 261 B.V | The Company had been deregistered under the Netherlands Civil Code. |
| 6 | B | 64E | Kumul Gas Foreland 268 B.V | The Company had been deregistered under the Netherlands Civil Code. |
| 7 | B | 64F | Kumul Gas Foreland 269 B.V | The Company had been deregistered under the Netherlands Civil Code. |

(ii) NATIONAL GOVERNMENT MINORITY SHAREHOLDINGS IN OTHER COMPANIES

| No. | Section | Para. No. | Entity | Remarks |
|-----|---------|-----------|-------------------------------------|---|
| 1 | C | 79 | Bougainville Copper Limited | 2020 Audit Report Completed. |
| 2 | C | 80 | Gogol Reforestation Company Limited | Audited Financial Statements for the years 2010 - 2020 not Submitted. |

Schedule 'E'

AUDIT IN ARREARS (2020 AND PRIOR YEARS) COMPLETED DURING 2021/2022 AUDIT CYCLE

2020 AUDITS - COMPLETED DURING 2021/2022

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|--|---------------|
| 1 | A | 2 | Bank of Papua New Guinea | 1 |
| 2 | A | 11 | Independent Fellowship Trust | 1 |
| 3 | A | 15 | Investment Promotion Authority | 1 |
| 4 | A | 16 | Kokonas Indastri Koporesen | 1 |
| 5 | A | 17 | Kumul Consolidated Holdings | 1 |
| 6 | A | 17A. | General Business Trust | 1 |
| 7 | A | 17B. | Kumul Technology Development Corporation Limited | 1 |
| 8 | A | 17C. | PNG Dams Limited | 1 |
| 9 | A | 18 | Legal Training Institute | 1 |
| 10 | A | 19 | Mineral Resources Authority | 1 |
| 11 | A | 22 | National AIDS Council Secretariat | 1 |
| 12 | A | 25 | National Cultural Commission | 1 |
| 13 | A | 33 | National Museum & Art Gallery | 1 |
| 14 | A | 46 | Papua New Guinea Institute of Medical Research | 1 |
| 15 | A | 48 | Papua New Guinea Maritime College | 1 |
| 16 | A | 55 | Road Traffic Authority | 1 |
| 17 | A | 56 | Securities Commission of Papua New Guinea | 1 |
| 18 | B | 65 | Air Niugini Limited | 1 |
| 19 | B | 68A. | Bmobile Limited and Subsidiary | 1 |
| 20 | B | 71 | Motor Vehicles Insurance Limited | 1 |
| 21 | B | 74 | Papua New Guinea Ports Corporation Limited | 1 |
| 22 | B | 76 | PNG DataCo Limited | 1 |
| 23 | B | 78 | Post (PNG) Limited | 1 |
| 24 | B | 79 | Telikom (PNG) Limited | 1 |
| 25 | B | 79A. | DATEC (PNG) Limited | 1 |
| 26 | B | 79B. | Kalang Advertising Limited | 1 |
| 27 | B | 80 | Water PNG Limited | 1 |

2019 AUDITS - COMPLETED DURING 2021/2022

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|--|---------------|
| 1 | A | 5 | Climate Change and Development Authority | 1 |
| 2 | A | 19 | Mineral Resources Authority | 1 |
| 3 | A | 24 | National Capital District Commission | 1 |
| 4 | A | 49 | Papua New Guinea National Institute Standard Industrial Technology | 1 |
| 5 | A | 55 | Road Traffic Authority | 1 |
| 6 | A | 56 | Securities Commission of Papua New Guinea | 1 |
| 7 | B | 65 | Air Niugini Limited | 1 |
| 8 | B | 66 | Kumul Agriculture Limited | 1 |
| 9 | B | 67 | Kumul Petroleum Holdings | 1 |
| 10 | B | 67I | Kumul LNG Limited | 1 |
| 11 | B | 67K | Kumul Petroleum (Investments) Limited | 1 |
| 12 | B | 67L | Kumul Petroleum (Kroton) Limited | 1 |
| 13 | B | 67M | Kumul Petroleum (Pipeline) Limited | 1 |
| 14 | B | 67N | Kumul Petroleum (Tech and Advisory) Limited | 1 |
| 15 | B | 68A. | Bmobile Limited | 1 |
| 16 | B | 73 | NCD Water and Sewerage Limited (Eda Ranu) | 1 |
| 17 | B | 79 | Telikom (PNG) Limited | 1 |
| 18 | B | 79C. | Media Niugini Limited (EMTV) | 1 |
| 19 | B | 80 | Water PNG Limited | 1 |

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2018 AUDITS - COMPLETED DURING 2021/2022

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|--|---------------|
| 1 | A | 5 | Climate Change and Development Authority | 1 |
| 2 | A | 6 | Cocoa Board of Papua New Guinea | 1 |
| 3 | A | 6A. | Cocoa Pod Borer Project Fund | 1 |
| 4 | A | 6B. | Cocoa Stabilisation Fund | 1 |
| 5 | A | 24B. | Port Moresby Nature Park Limited | 1 |
| 6 | A | 43 | Papua New Guinea Customs Service | 1 |
| 7 | A | 49 | Papua New Guinea National Institute Standard Industrial Technology | 1 |
| 8 | A | 51 | Papua New Guinea University of Technology | 1 |
| 9 | B | 65 | Air Niugini Limited | 1 |
| 10 | B | 68A. | Bmobile Limited | 1 |
| 11 | B | 70 | National Resources Development Company Limited | 1 |
| 12 | B | 77 | PNG Power Limited | 1 |
| 13 | B | 79C. | Media Niugini Limited (EMTV) | 1 |

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2017 AUDITS - COMPLETED DURING 2021/2022

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|--|---------------|
| 1 | A | 14 | Internal Revenue Commission. | 1 |
| 2 | A | 31 | National Information and Communication Technology Authority | 1 |
| 3 | A | 43 | Papua New Guinea Customs Service | 1 |
| 4 | A | 49 | Papua New Guinea National Institute Standard Industrial Technology | 1 |
| 5 | A | 51A. | National Analytical & Testing Services Limited. | 1 |
| 6 | B | 65 | Air Niugini Limited and it's Subsidiaries | 1 |
| 7 | B | 70 | National Resources Development Company Limited | 1 |

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2016 AUDITS - COMPLETED DURING 2021/2022

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---|---------------|
| 1 | A | 14 | Internal Revenue Commission. | 1 |
| 2 | A | 29 | National Gaming Control Board | 1 |
| 3 | A | 29A. | National Gaming Control Board Community Benefit Fund Trust. | 1 |
| 4 | A | 51A. | National Analytical & Testing Services Limited. | 1 |
| 5 | B | 65 | Air Niugini Limited | 1 |
| | | | | 5 |

2015 AUDITS - COMPLETED DURING 2021/2022

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---|---------------|
| 1 | A | 44 | Papua New Guinea Forest Authority | 1 |
| 2 | A | 51A. | National Analytical & Testing Services Limited. | 1 |
| 3 | A | 60B. | Unigor Humi Catering Limited | 1 |
| 4 | A | 62 | University of Papua New Guinea | 1 |
| | | | | 4 |

2014 AUDITS - COMPLETED DURING 2021/2022

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---|---------------|
| 1 | A | 51A. | National Analytical & Testing Services Limited. | 1 |
| 2 | A | 60B. | Unigor Humi Catering Limited | 1 |
| | | | | 2 |

2013 AUDITS - COMPLETED DURING 2021/2022

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|---|---------------|
| 1 | A | 40 | Oil Palm Industry | 1 |
| 2 | A | 51A. | National Analytical & Testing Services Limited. | 1 |
| 3 | A | 60B. | Unigor Humi Catering Limited | 1 |
| | | | | 3 |

2012 AUDITS - COMPLETED DURING 2021/2022

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|------------------------------|---------------|
| 1 | A | 60B. | Unigor Humi Catering Limited | 1 |
| | | | | 1 |

2011 AUDITS - COMPLETED DURING 2021/2022

| No. | Section | Para. No. | Entity | No. of Audits |
|-----|---------|-----------|------------------------------|---------------|
| 1 | A | 60B. | Unigor Humi Catering Limited | 1 |
| | | | | 1 |
| | | | | 82 |