



AUDITOR-GENERAL'S OFFICE ANNUAL REPORT



**IN TERMS OF
SECTION 19**

**OF THE ORGANIC LAW ON CERTAIN CONSTITUTIONAL
OFFICE HOLDERS
AND**

**SECTION 27 OF THE AUDIT ACT 1989
YEAR 2020**



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YEAR 2020**



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OFFICE OF THE AUDITOR-GENERAL

Date: 15 March 2021

Our Reference: GK10

His Excellency, the Governor-General
Grand Chief Sir Bob Dadae, GCMG
Office of the Governor-General
P.O. Box 79
Government House
PORT MORESBY

Your Excellency,

I have the honour to submit to you for presentation to the National Parliament, the Annual Report of the Auditor-General for the year ending 31 December, 2020. This report has been prepared in accordance with Section 19 of the *Organic Law on Certain Constitutional Office Holders* and Section 27 of the *Audit Act, 1989*.

The report will be placed on the Auditor-General's Office Website - www.ago.gov.pg, only after it is tabled in Parliament.

Your obedient servant,

GORDON KEGA, MBA, CPA
Auditor-General of Papua New Guinea

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LIST OF ACRONYMS

| Abbreviation | Full Description |
|--------------|--|
| PNG | Papua New Guinea |
| AGO | Auditor-General's Office |
| GoPNG | Government of Papua New Guinea |
| PAC | Public Accounts Committee |
| MTDS | Medium Term Development Strategy |
| IFMS | Integrated Financial Management System |
| IRC | Internal Revenue Commission |
| SGP | Strongim Gavaman Project |
| NGAD | National Government Audit Division |
| P&LLGAD | Provincial and Local-Level Government Audit Division |
| SBAD | Statutory Bodies Audit Division |
| CSD | Corporate Services Audit Division |
| PAB | Performance Audit Branch |
| FAB | Forensic Audit Branch |
| DAG | Deputy Auditor-General |
| AAG | Assistant Auditor-General |
| HR | Human Resource |
| IT | Information Technology |
| UN | United Nations |
| INTOSAI | International Organization of Supreme Audit Institutions |
| ISSAI | International Standards of Supreme Audit Institutions |
| IFRS | International Financial Reporting Standards |
| IPSAS | International Public Sector Accounting Standards |
| ISA | International Standards on Auditing |
| PASAI | Pacific Association of Supreme Audit Institutions |
| SAI | Supreme Audit Intuition |

| | |
|--------|--|
| ACAG | Australasian Council of Auditors-General |
| CPA | Certified Practicing Accountants |
| APEC | Asia-Pacific Economic Cooperation |
| SDG | Sustainable Development Goals |
| DDA | District Development Authorities |
| SIP | Service Improvement Program |
| PSIP | Provincial Service Improvement Program |
| DSIP | District Service Improvement Program |
| LLGSIP | Local-Level Government Service Improvement Program |
| PIP | Public Investment Program |
| ADB | Asian Development Bank |
| ANAO | Australian National Audit Office |
| LAGIS | Land Geographical Information System |
| MOU | Memorandum of Understanding |
| APR | Appointments, Promotion and Remuneration |
| AMS | Audit Management Software |
| GST | Goods and Services Tax |
| CPI | Consumer Price Index |
| NID | National Identification |
| PSMA | Public Service Management Act |

FOREWORD

It gives me great pleasure to present the 2020 Annual Report of the Auditor-General of Papua New Guinea. The report reflects our effort to serve our country by executing our oversight role for the use and management of public funds, and promote transparency and good governance in the public sector.



Despite the lockdowns and other measures adopted by the Controller's Office to address the Covid19 we have maintained stability and continuity during 2020. Such stability allowed us to maintain the rate at which we complete planned audit assignments. We have improved our approach of providing simple, clear and relevant audit recommendations, while the

quality of the reports remained high.

The standard of independence will remain an area of continuing focus for the AGO going forward. As in the past, we will maintain closer attention to our stakeholder engagements, where we discuss audit recommendations and secure commitments. To make these meetings more fruitful and to implement our goal of improving the visibility and benefits of audit work, we will be increasing the intensity of the understanding provided during every interaction in order to achieve greater impact, and stimulate improvements in the public sector.

The AGO remains strongly committed to ensuring better accountability and good governance practices by all public entities; it is also essential to drive continual improvement in governance and this helps to ensure delivery of essential services to the citizens of this country.

The AGO is continuously strategizing and consolidating its resources and effort for a dynamic outcome over the next decade.

CHAPTER ONE – BACK GROUND

1.0 INTRODUCTION

This is the Auditor-General's report in terms of Section 19 of the *Organic Law on Certain Constitutional Office Holders*. The report also conforms to the requirements of Section 27(2) of the *Audit Act, 1989*, which requires me to furnish a report on the operations of the Auditor-General's Office annually.

The report contains information about the operations and financial statements of my Office for the year ended 31 December, 2020.

2.0 OFFICE OF THE AUDITOR-GENERAL

The Auditor-General's Office is responsible for the audit of the financial affairs and activities of the Government in accordance with Section 214 of the *Constitution of the Independent State of Papua New Guinea*. (See Table 1).

Table 1. Section 214 of the Constitution – Functions of the Auditor-General

1. *The primary functions of the Auditor-General are to inspect and audit, and to report at least once in every fiscal year (as provided by an Act of Parliament) to the Parliament on the public accounts of Papua New Guinea and on the control of and on transactions with or concerning the public moneys and property of Papua New Guinea, and such other functions as are prescribed by or under a Constitutional Law.*
2. *Unless other provision is made by law in respect of the inspection and audit of them, subsection (1) extends to the accounts, finances and property of;*
 - (a) *all arms, departments, agencies and instrumentalities of the National Government; and*
 - (b) *all bodies set up by an Act of Parliament, or by Executive or Administrative Act of the National Executive, for governmental or official purposes.*
3. *Notwithstanding that other provision for inspection or audit is made as provided for by subsection (2), the Auditor-General may, if he thinks it proper to do so, inspect and audit, and report to the Parliament on, any accounts, finances or property of an institution referred to in that subsection, insofar as they relate to, or consist of or are derived from, public moneys or property of Papua New Guinea.*
4. *An Act of Parliament may expand, and may provide in more detail for, the functions of the Auditor-General under subsections (1), (2), and (3), and may confer on the Auditor-General additional functions and duties not inconsistent with the performance of the functions and duties conferred and imposed by those subsections.*

The audits conducted by the Auditor-General are independent reviews of the state of affairs of public sector entities on behalf of Parliament with a view to provide assurance that the entity managements have duly and properly discharged their responsibilities in terms of financial and operational performance.

3.0 AUDIT MANDATE

The Audit Act compliments the Constitution by providing the legal authority for the functions and powers of the Auditor-General and governs the operations of the Auditor-General's Office.

In particular, Section 3(1) of the Act exemplifies the requirements of the Constitution, and states that *“The primary functions of the Auditor-General are to inspect and audit, and to report at least once in every fiscal year to the Parliament on the public accounts of Papua New Guinea, and on the control of and on transactions with or concerning the public moneys and property of Papua New Guinea, and such other functions as are prescribed by or under a law of Papua New Guinea”*.

More specifically, the Auditor-General is mandated to undertake audits of National Government Departments and Agencies, Provincial Governments and Local-Level Governments and Statutory Authorities, as follows:

Table 2. Auditor-General's Office Audit Mandate

| No. | Division | Mandated Audits | Number of Entities |
|-----|---|------------------------------------|--------------------|
| 1. | National Government Audit Division | National Government Departments | 42 |
| | | Public Accounts | 1 |
| | | Treasury Offices | 21 |
| | | Sub Total | 64 |
| 2. | Provincial Government Audit Division | Provincial Governments | 21 |
| | | Services Improvement Program (SIP) | 432 |
| | | Local Level Governments | 319 |
| | | Hospital Boards | 21 |
| | | Business Arms | 155 |
| | | Sub Total | 948 |
| 3. | Statutory Bodies Audit Division | Public Bodies | 439 |
| | | Subsidiaries | 48 |
| | | Donor Funded Projects | 54 |
| | | Sub Total | 541 |
| 4. | Performance Audit Branch | Projects and Programs | 15 |
| 5. | Forensic Audit Branch | Investigations | 4 |
| | | TOTAL | 1,572 |

- 3.1 **National Government Departments Audit Division** – to inspect and audit the accounts, finances and properties of all National Government Departments, Arms, Agencies, and instrumentalities as well as bodies established for governmental or official purposes by a Constitutional Law, Act of Parliament, Executive or Administrative Act of the National Executive, and the subsidiary corporations of such bodies.
- 3.2 **Provincial Governments & Local-Level Governments Audit Division** – to inspect and audit the accounts, money and properties of Provincial Governments, Local-Level Governments, Subsidiary Corporations of Provincial Governments, Provincial Government Associations, Provincial Government owned companies and Public Projects, and bodies established by a Provincial Law and Executive or Administrative Act of the Provincial Executive Council.
- 3.3 **Statutory Bodies Audit Division** – to inspect and audit the accounts, records, financial transactions, assets and liabilities of all Public Bodies and Subsidiary Corporations.
- 3.4 **Performance Audit Branch** - to conduct performance audits and reviews on issues related to public importance and concerns and produce special audit reports for tabling in Parliament. Performance Audit also known as Value for Money Audit is defined as making best use of limited financial resources with due regard to efficiency, economy and effectiveness.
- 3.5 **Forensic Audit Branch** – is a specialised area, which encompasses the engagement and assessments of audit evidences to identify possible fraud and/or embezzlement of public funds, which are then subjected to actual or anticipated litigation, or criminal prosecution, or other arbitrary actions.

4.0 AUDIT COVERAGE AND PROCESS

The audit coverage includes the attestation of financial statements, examination of compliance with legal and administrative regulations, and assessment of the economy, efficiency and effectiveness of the operations of entities being audited.

The audit process entails and relies on effective planning, co-ordination, implementation and reporting in line with the best audit practices as stipulated by internationally accepted auditing standards. All audits are conducted in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. The audit process begins with the planning phase in July and ends with the preparation of the Auditor-General's Audit Report to Parliament by June of the following year.

5.0 REPORTING REQUIREMENTS

Section 214 of the Constitution requires the Auditor General to report at least once every fiscal year to the Parliament on the public accounts of PNG and on the control of and on transactions with or concerning the public monies and property of PNG.

The Public Finances (Management) Act requires a Public Body, before 30 June each year, to provide the Minister with a performance and management report, together with financial statements, of its operations for the year ending 31 December preceding. The Act also

requires the Public Body to submit the financial statements to the Auditor-General before providing them to the Minister.

Section 123(8) of the *Organic Law on Provincial Governments and Local-Level Governments* requires the Auditor General to furnish before 30 April of the following year, audit reports on the previous year's accounts to the Minister responsible for Provincial Governments and Local-Level Government Affairs, the Minister responsible for Finance matters, the Provincial Governments and Local-Level Governments concerned, and the National Economic and Fiscal Commission.

In addition to meeting the specific legislative requirements of reporting to Parliament, the Auditor General is also required by the Constitution to report on funding provided by the Government and International Donors towards projects identified and approved by the Executive Government.

In fulfilling the reporting responsibilities under the Audit Act, four Auditor-General's compendium reports are prepared annually, as follows:

5.1 **Part I – Public Accounts**

The Part I Report contains the audit opinion on the Public Accounts, which represents the financial statements of the Government of Papua New Guinea. It also contains observations on the Government's financial statements.

5.2 **Part II – National Government Departments and Provincial Treasuries**

The Part II Report contains the audit findings, conclusions, and recommendations from the audits of National Government Departments, Instrumentalities and Agencies. The audits of the National Government Departments provide information on the reliability and accuracy of the reported expenditure and revenue, which in aggregate are reported in the Public Accounts.

5.3 **Part III – Provincial Governments and Local-Level Governments**

The Part III Report covers the financial statement audits of Provincial Governments, their Public Bodies and Subsidiary Corporations, Local-Level Governments, Hospital Boards and some Trust Funds.

5.4 **Part IV – Public Bodies and their Subsidiaries**

The Part IV Report covers the audit of Public Bodies and their Subsidiaries, National Government-owned Companies and National Government's shareholdings in other companies.

5.5 **Individual Reports**

Individual reports are submitted to Parliament when audits are completed and audit reports issued. These cover the results of Performance Audit, Forensic and Special Audit conducted on selected areas of concern in National Government Departments, Provincial Governments and Local-Level Governments and Public Bodies.

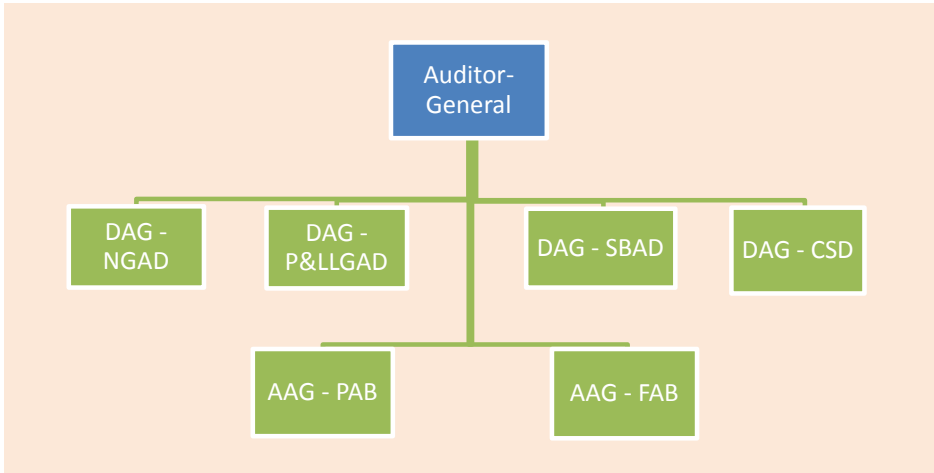
In 2019, I started submitting Individual Reports to Parliament after regular audits were completed by my office, to ensure relevance and timeliness of reporting. However, with the lengthy contents of some individual reports, rising printing costs and limited financial resources we have experienced, I have prepared Individual Reports on a selective basis and in 2020 reverted back to the annual compendium report in fulfilling the reporting responsibilities required by the Audit Act.

6.0 ORGANIZATIONAL STRUCTURE

In the period covered by this report, the Auditor-General’s Office has continued to maintain the 4 divisions namely National Government Audit Division, Provincial and Local-Level Government Audit Division, Statutory Bodies Audit Division and Corporate Services Division which are headed by Deputy Auditors-General. Under the current structure we also have special operational branches which are headed by Assistant Auditors-General who report directly to me. (See Figure 1).

The roles of the operational divisions and special operational branches and the support services division are discussed briefly in the following paragraphs with more details provided in Chapters 2 and 3.

Figure 1. Structure of the Auditor-General’s Office



7.0 RESOURCING OF THE AUDITOR-GENERAL’S OFFICE

Despite my budget submission of K41.8 million, the National Parliament appropriated a total of K25.3 million in 2020 (of which only K19.5 was actually received when the Supplementary Budget was passed) to the AGO through the 2020 Budget Process. This was inadequate to fund my operational requirements considering the increase in audit portfolios. As a result, the conduct of audits was mainly focused on government entities and agencies based in the National Capital; whilst the audits in other provinces, particularly DSIP and SIP audits, were restricted because of the limited financial resources.

I would like to re-emphasize the fundamental principle of the democratic process is that, for an Audit Office to be effective it must be adequately resourced so that it is and is seen to be operationally independent of Government. Section 20B of the *Audit Act 1989* provides this resourcing independence as it requires the Auditor-General to:

“...prepare annually estimates of the sums that will be required for the payment of salaries, allowances and expenses of his office during the next ensuing financial year for consideration by the Permanent Parliamentary Committee on Public Accounts for recommendation to the Prime Minister for approval in accordance with Section 225 of the Constitution”.

In reality, as in previous years, this does not happen, and the AGO funding is determined by Treasury as part of the annual Government Budget Process. This process does not involve the Public Accounts Committee (PAC).

I recognize the important role of the Department of Treasury in the Budget Process and that the Government has the responsibility to decide how the country’s resources are allocated. However, as I mentioned in my past report, I believe that PAC should play a role in determining the Office of the Auditor-General’s resourcing requirements as provided for in the Audit Act, which is consistent with the Constitution, or alternatively Audit Fees will be allocated in the recurrent budget of all National Government Departments, Provincial Governments and Local-Level Governments, Statutory Bodies and all others as mandated by the Constitution to be paid directly to the Auditor-General’s Office.

8.0 CORPORATE PLAN

The Office vision is” *To audit, to serve our country and communities professionally, and grow our people successfully.*” I believe that the achievement of the objectives of the Corporate Plan will have an impact on transparency, accountability and good governance in government entities, and allow the Auditor-General’s Office to be a key player in public sector accountability and integrity.

The Office’s long term objectives are to promote effective leadership and management so that it can address its mandate by developing close relationships with its stakeholders and delivering quality audit reports by a workforce that has the capacity to undertake audits with professionalism and integrity.

The Office requires adequate resources to meet the needs of a modern day professional audit practice and to allow us to continually review our processes and procedures, so that the Office can deliver cost-effective and timely audits.

The Office’s intention is to align its audits with the National Government development aspirations. With this in mind, my preamble in the Corporate Plan states that the Office would strive to provide opinions on the effectiveness of the public sector’s delivery, of government policies and programs, and their contribution to Nation Building through the service delivery objectives of the Medium Term Development Strategies (MTDS).

The current Corporate Plan will expire on 2021 and thereafter a new plan will be developed.

9.0 STATE OF FINANCIAL MANAGEMENT IN PUBLIC SECTOR ENTITIES

As mentioned in past reports, I believe the competency level of staff in a number of public sector entities is not adequate to deal with the complexities of a modern day public sector environment.

The audit function is constrained because there are no records to audit, and the entities systems do not support the financial management functions. Often the internal controls that are supposed to prevent breakdowns in financial administration are non-existent.

Examples of poor financial management include:

1. Non-preparation of the regular bank reconciliations;
2. Poor documentation over transactions;
3. Ineffective internal controls over assets;
4. Lack of periodic physical stocktake of assets;
5. Non acquittal of advances and travel allowances;
6. Non-remittance of withholding taxes on salaries and allowances; and
7. Ineffective budget controls

This lack of financial management has compelled me to issue qualified and disclaimer of audit opinions in 2020 as in the past. This means that I have disagreed with the treatment or disclosure of information in financial statements, or cannot express an opinion on whether the financial statements are based on proper accounts and records.

The perennial issues faced by the Office is the non-submission of financial statements by public bodies within the legislative timeframe, which leads to audits being in arrears as the financial statements are not audited in the current year. This affects the relevance of the financial statements to decision makers and is contrary to the principles of accountability and transparency.

This is a serious issue that I will continue to address with the Departments of Finance and Treasury in 2022.

10.0 EXTERNAL COMMITMENTS

In 2020 the AGO did not attend any external commitments to conform with the Covid19 restriction imposed by the Controllor.

CHAPTER TWO – AUDIT OPERATIONS

In 2020, the Office was structured to fulfil its audits through its three operational divisions headed by Deputy Auditors-General and two operational branches headed by Assistant Auditors-General who report to me. The performance of the operational divisions and branches is summarized below.

11.0 NATIONAL GOVERNMENT AUDIT DIVISION

The audit of departments was primarily undertaken on a risk-based approach, as well as the audit of controls and governance of which has now become an essential part of all departmental audits.

The audit of the accounts and records of Departments was basically to gather supporting evidence through substantive testing for the audit of the Public Accounts and the internal controls system in these Departments. These departments audited were considered by my Office to be of high risk, because of their high value of revenue and expenditure, and the nature of government business.

In 2020, the National Government Audit Division backlog audits include 62 Departmental Audits and three (3) Public Accounts Audits, in total relating to the fiscal years 2016 to 2019. Due to COVID 19 lockdown and other internal factors, the Division was able to complete 45% of its planned Departmental Audits and two Public Accounts Management Letters at reviews stage, a detail of which is presented in Table 3 below.

Table 3. Audits undertaken and completed in 2020 by the Division for the fiscal years 2016-2019

| | Audit Mandate | Management Letters Issued for fiscal years | | Management Letter under review for fiscal years | | | TOTAL |
|---------------------|---------------|--|------|---|------|------|-------|
| | | 2017 | 2018 | 2016 | 2017 | 2018 | |
| National Department | 42 | 12 | 1 | 0 | 7 | 7 | 27 |
| Public Accounts | 1 | 0 | 0 | 1 | 1 | 0 | 2 |

Of the 65 planned audits, 55% of the audits were not audited by the Division and the incomplete audits will be included in the 2021 audit cycle. Refer to Table 4 below for details.

Table 4. 2020 Incomplete audits to be included in 2021 audit cycle for the fiscal years 2017-2019

| | Audit Mandate | Audits to be included in 2021 audit cycle | | | Total |
|---------------------|---------------|---|------|------|-------|
| | | 2017 | 2018 | 2019 | |
| National Department | 42 | 1 | 10 | 24 | 35 |
| Public Accounts | 1 | 0 | 1 | 0 | 1 |

- The audited and unaudited agencies for the fiscal years 2017-2019 are shown in Table 5.

Table 5. Departments audited for years 2017 to 2019

| Name of Department | | Management Letters Issued/ Under Review | | Audits carried forward to 2021 audit cycle | | |
|--------------------|--|--|------|--|------|------|
| | | 2017 | 2018 | 2017 | 2018 | 2019 |
| 1 | Agriculture and Livestock | ☒ | ☒ | ☒ | ☒ | ✓ |
| 2 | Attorney General | ✓ | ☒ | ☒ | ✓ | ✓ |
| 3 | Commerce and Industry | ✓ | ☒ | ☒ | ✓ | ✓ |
| 4 | Correctional Services | ✓ | ☒ | ☒ | ✓ | ✓ |
| 5 | Defence | ✓ | ☒ | ☒ | ✓ | ✓ |
| 6 | Education | ✓ | ✓ | ☒ | ☒ | ✓ |
| 7 | Finance & ITD | ✓ | ✓ | ☒ | ☒ | ✓ |
| 8 | Health | ☒ | ☒ | ✓ | ✓ | ✓ |
| 9 | Higher Education, Research, Science & Tech. | ✓ | ✓ | ☒ | ☒ | ✓ |
| 10 | Lands and Physical Planning | ✓ | ☒ | ☒ | ☒ | ✓ |
| 11 | Magisterial Services | ✓ | ☒ | ☒ | ☒ | ☒ |
| 12 | National Judiciary Staff Services | ✓ | ✓ | ☒ | ☒ | ✓ |
| 13 | National Parliament | ✓ | ✓ | ☒ | ☒ | ✓ |
| 14 | National Planning & Monitoring | ✓ | ✓ | ☒ | ☒ | ✓ |
| 15 | Personnel Management | ☒ | ☒ | ☒ | ☒ | ☒ |
| 16 | Petroleum and Energy | ☒ | ☒ | ☒ | ✓ | ✓ |
| 17 | Police | ✓ | ☒ | ☒ | ✓ | ✓ |
| 18 | Prime Minister & NEC | ✓ | ✓ | ☒ | ☒ | ✓ |
| 19 | Transport | ✓ | ☒ | ☒ | ✓ | ✓ |
| 20 | Treasury | ☒ | ☒ | ☒ | ✓ | ✓ |
| 21 | Works & Implementation | ✓ | ✓ | ☒ | ☒ | ✓ |
| 22 | Office of Public Solicitor | ☒ | ☒ | ☒ | ☒ | ☒ |
| 23 | Office of the Registrar for Political Parties | ☒ | ☒ | ☒ | ☒ | ☒ |
| 24 | National Intelligence Organization | ☒ | ☒ | ☒ | ☒ | ☒ |
| 25 | Office of Bougainville Affairs | ✓ | ☒ | ☒ | ☒ | ☒ |
| 26 | Office of Censorship | ✓ | ☒ | ☒ | ☒ | ☒ |
| 27 | Office of Public Prosecutor | ✓ | ☒ | ☒ | ☒ | ☒ |
| 28 | Public Service Commission | ☒ | ☒ | ☒ | ✓ | ☒ |
| 29 | Department of Implementation & Rural Development | ☒ | ☒ | ☒ | ☒ | ✓ |
| 30 | PNG Civil Registry & Identity | ☒ | ☒ | ☒ | ☒ | ✓ |
| 31 | Mineral Policy & Geohazard Management | ☒ | ☒ | ☒ | ☒ | ✓ |
| 32 | Foreign Affairs | ☒ | ☒ | ☒ | ☒ | ✓ |
| 33 | Provincial and Local Level Government Affairs | ☒ | ☒ | ☒ | ☒ | ✓ |

11.1 Auditor-General's Reports - Part I and Part II

In 2020, the Division completed Part II Reports for 2016-2015, however, the report is yet to be submitted to Parliament.

Part I and Part II reports for 2016 and 2018 are expected to be tabled in Parliament by the end of 2021.

12.0. PROVINCIAL AND LOCAL-LEVEL GOVERNMENT AUDIT DIVISION

Section 119 of the *Organic Law on Provincial Governments and Local-Level Governments (1995)* extends the audit mandate to cover Provincial Governments and Local-Level Governments.

Section 113 of the *Organic Law* requires the Auditor-General to establish a Provincial Audit Service and appoint a Provincial Auditor and additional officers in each Province. At the time of this Report, no such Provincial Audit Services have been established in any of the Provinces due to budgetary limitations confronted by the PNG Auditor-General's Office (PNGAGO). These constraints greatly affect my resources and capability to service audit clients based in the provinces. The office, however, had established Regional Audit Cells in Port Moresby (Southern), Kokopo (NGI), Mount Hagen and Goroka (Highlands) and Lae (Momase).

Other than staff and administrative control of AGO, neither the *Constitution* nor the *Organic Law* provides for any executive or directive powers by the Auditor-General over the organizations subject to audit. Although the evaluations and investigations conducted under the direction of the Auditor-General assist management in detecting control and procedural weaknesses, the Auditor-General has no executive responsibility in relation to the formulation of accounting systems and policies or the setting of standards for administrative and accounting purposes as this may impede the independence and objectivity requirements of the Auditor-General in the execution of his primary audit function.

However, it has been the policy of this Office to enter into discussions with Provincial and Local-Level Governments on matters relating to accounting systems, internal controls and administrative procedures in general, and to provide related documentation where possible. In providing such advice or information it is understood that the responsibility for executive decision making remains with the auditee organisations.

12.1 Performance over the last year (2020)

Section 16 and Section 20A of the *Audit Act 1989 (as amended)* further amplify the audit provisions in relation to the Auditor-General's responsibilities for Provincial and Local-Level Governments.

In 2020, the Division has a total of 481 sub-national government audit portfolios, including the 21 Provincial Governments, 319 Local-Level Governments, 21 Provincial Health Authorities, 111 Service Improvement Program Audits and a number of business arms, provincial authorities and trust funds.

The funding constraints faced by the office have significantly affected the performance of the Division in delivering its audit services throughout the provinces and the sub-national level in 2020. Except for a few station audits, the audits of provincial governments, urban local governments, provincial health authorities and business arms located in other parts of the country have not been executed hence, the Division did not produce its annual Part III Reports for the 2017/2018, 2018/2019 and 2019/2020 Audit Cycles.

The number of audit reports issued in 2020 compared to 2019 and 2018 is shown in the table below.

Table 6. Audit Reports issued in 2020, 2019 and 2018.

| Audit Portfolio | Audit Reports Issued | | |
|------------------------------|----------------------|------|------|
| | 2020 | 2019 | 2018 |
| Provincial Government | 5 | 3 | 2 |
| Urban LLG | 0 | 0 | 0 |
| PHA/HB | 9 | 4 | 2 |
| Business Arms | 0 | 0 | 0 |
| Trust Funds | 4 | 3 | 1 |
| Authorities | 0 | 0 | 0 |

Due to the economic downturn experienced by the country and the consequential effect that this Division was faced with resulting in nil field audits performed and the subsequent audit reports not produced over the recent years. Most clients submitted their financial statements however; most field audits planned for execution in 2020 have been greatly affected again by the Covid-19 Pandemic restrictions.

12.2 Auditor-General's Part III Report

The Division is responsible for the preparation of the Auditor-General's Part III Report to National Parliament. The Part III Report is an amalgamated report containing summary of individual entity reports. As mentioned above, except for a few station audits the audits of provincial governments, urban local governments, provincial health authorities and business arms located in other parts of the country have not been fully executed hence, the division did not produce its annual Part III Reports for the 2017/2018, 2018/2019 and 2019/2020 Audit Cycles. Furthermore, the audits of SIP have not been conducted in 2020 hence no reports submitted to Parliament.

Apart from the 'Amalgamated Report' to Parliament the Division was also producing Individual Entity Reporting for few agencies. Refer to Table 7 for details of these reports.

Table 7. Individual Reports to Parliament

| Name of Entity | Year(s) Covered (Reported) | Year of Report to Parliament |
|--|-----------------------------------|-------------------------------------|
| East New Britain Provincial Government | 2016 | 2019 |
| Eastern Highlands Provincial Health Authority | 2014 - 2015 | 2020 |
| Enga Provincial Health Authority | 2015-2016 | 2020 |
| Hela Provincial Health Authority | 2016 | 2019 |
| Hela Provincial Health Authority | 2017 | 2020 |
| Milne Bay Provincial Health Authority | 2016 | 2020 |
| Gazelle Restoration Authority | 2015 | 2020 |

12.3 Challenges

Biggest challenge the Division faces is resource constraints.

The Division is not adequately resourced with funding (budget cuts) and manpower to deliver its audit services and produce audit reports that are current and relevant. The Division experiences a manpower gap between the graduates/auditor 1 level and the Director of Audits resulting in more man-days spent on an audit and also affects the quality and relevance of the audit report produced.

12.4 Going Forward

Apart from the individual reports to Parliament, the Division has not progressed in its 2020 plan hence, will continue to;

1. Bring to current the audits of Provincial Government, Urban Local-Level Government, Provincial Health Authorities and Business Arms;
2. Bring to current audits of the District Development Authority (DDA). This includes the audits of PSIP, DSIP and some LLGSIP; and,
3. Improve Resource Capability - increase manpower at middle management positions through recruitment.

13.0 STATUTORY BODIES AUDIT DIVISION

The Statutory Bodies Audit Division draws its powers and authority under Section 8 of the *Audit Act (1989)* that enables it to carry out the audits of the accounts of all bodies to ascertain whether:

1. The financial statements are based on proper accounts and records; and
2. The statements are on agreement with and show fairly the results of their financial operation as at the end of the year.

The Division is responsible for the audit of National Government owned companies and their subsidiaries, Public Bodies and National Government shareholding in other companies in accordance with their respective enabling legislations. The Auditor-General has the discretion in the exercise of his powers under Section 3 and 4 of the *Audit Act* to carry out audits and revenues of government operations of programs including donor funded projects and other activities.

The Division has continued to achieve its annual performance targets over the years by producing the annual AGO Part IV report to Parliament on timely basis each year. The number of audit reports issued has also continued to increase over the years. Non submission of financial statements continues to be a problem with 60% of entities not submitting their financial statements as required. This also represents 54% of the total current years (2020) financial statements which were due for audit by April, 2020.

Due to the shortage of skilled manpower and other factors, the Division outsources some of the audits to private accounting firms (agents) through a competitive bidding process which results in a contract being awarded. My office continues to oversee and review work performed by the agents and sign-off on the audit reports produced. The Division has a stringent quality control process in place to ensure that set standards are met.

Despite the disruptions from the global Covid 19 pandemic in early 2020, the Division has submitted its Annual Part IV report for 2020, in respect of audits undertaken during the period 1 July, 2020 to 30 June, 2021. The report was presented to Parliament in September 2021.

The Division management is headed by a Deputy Auditor-General and assisted by 2 Assistant Auditors-General and 6 Directors of Audit and supported by 24 staff.

13.1 Performance Summary

The Division's performance and output for the year 2020 is presented hereunder. Table 8 refers.

Table 8. Statutory Bodies Audit Division's operational performance from 2016 - 2019

| | 2021/2020 | 2020/2019 | 2019/2018 | 2018/2017 |
|--|------------|------------|------------|------------|
| AUDITS COMPLETED - REPORTS ISSUED | 95 | 81 | 49 | 26 |
| AUDITS COMPLETED - REPORTS TO BE ISSUED | 61 | 49 | 60 | 79 |
| AUDITS IN PROGRESS | 83 | 91 | 43 | 58 |
| AUDITS TO COMMENCE SHORTLY | 44 | 39 | 32 | 24 |
| FINANCIAL STATEMENTS NOT SUBMITTED | 197 | 179 | 115 | 150 |
| NON OPERATIONAL CEASED ENTITIES | 7 | 0 | 0 | 0 |
| TOTAL | 439 | 439 | 299 | 337 |

13.2 Project Audit Branch

The establishment of the Project Audit Branch resulted from the increase in requirements and greater expectations to conduct audit and produce reports to the Donor Agencies and Development Partners in respect of donor funded projects in PNG and the GoPNG (PIP) funded projects. The Project Audit Branch undertakes the following:

1. Audit of all donor funded project located throughout the country;
2. Co-ordinate the conduct of all project audits funded by the International Donor Agencies and International Credit Organizations;
3. Audit for all the GoPNG major (PIP) projects inclusive of all capital works projects with the threshold of K10.0 million and above;
4. Ensure that the audit planning, field audit and reporting are conducted in accordance with the International Auditing Standards and with the terms and covenants of the loan and or funding agreements; and
5. The preparations of annual report for Auditor-General on project audits.

The project audits status for the year ended 31 December 2020 is presented hereunder:

Table 9. Project Audit Branch status of work

| Donor/Agencies | Audit Mandate | Audit Opinion Issued | Audit in Progress | Financial Statement Received | Financial Statement Not Yet Received | Undoable Audit |
|----------------|---------------|----------------------|-------------------|------------------------------|--------------------------------------|----------------|
| ADB | 21 | 11 | 8 | 1 | 0 | 1 |
| World Bank | 26 | 8 | 4 | 6 | 6 | 2 |
| Others | 22 | 2 | 11 | 7 | 0 | 2 |
| Total | 69 | 21 | 23 | 14 | 6 | 5 |

14.0 PERFORMANCE AUDIT BRANCH

The Performance Audit Branch was established in year 2009. In the initial set up, the Branch was mostly involved in capacity building with the assistance from Pacific Supreme Audit Institution (PASAI) and Australian National Audit Office (ANAO) with staff strength of 3 officers. However, the Branch overtime had increased its staff strength from 3 to 10 officers. An Assistant Auditor-General is the head of the Branch and reports directly to the Auditor-General.

Performance Auditing is also known as Value for Money Audit is about making good use of resources to effectively deliver government policy goals and achieve the intended results. The specific definition of performance auditing is that the performance audit is carried out by Supreme Audit Institutions (SAIs) is an independent, objective, and reliable examination of whether government undertakings, systems, operations, activities, or organisations are operating in accordance with the principals of economy, efficiency, and effectiveness and whether there is a room for improvement. (Source: ISSAI 3000/17). Performance auditing is different from the other two types of audit; that is financial and compliance audits. A performance audit will cover full range of government activities, including organisational, financial and administrative systems. The function of the Performance Audit Branch is to conduct performance audits and reviews on issues related to public importance and concerns in the public sector organisations/entities and produce special audit reports for tabling in National Parliament.

14.1 Legal Mandate

The mandate to conduct performance audit is provided for in Section 214(3) of the *Constitution* which states that “...the Auditor-General may, if he thinks it proper to do so, inspect and audit, and report to the Parliament on, any accounts, finances or property of an institution, insofar as they relate to, or consist of or are derived from, public moneys or property of Papua New Guinea”. This is further amplified in the *Audit Act (1989)* under Section 3(5)(h), which empower the Auditor-General to “...take such actions as he thinks necessary to satisfy himself that the functions performed by, and the operations carried out by the relevant body, are carried out in an economical, efficient and effective manner”.

The practise and conduct of performance audits also adheres to International Standard of Supreme Audit Institutions (ISSAI) and Pacific Association of Supreme Audit Institutions (PASAI) adopted Standards and Practices.

14.2 Special Audit Reports

There are many performance audit topics or issues that could be chosen for audit purposes. However, the branch as required by the International Standard of Supreme Audit Institutions (ISSAI) Standards on Performance Audits produced a 3-year Audit Strategic Plan to guide the Branch to select performance audit topics. Based on this plan, the branch was required by the Auditor-General to produce a minimum of 2 special audit reports every audit cycle.

During the audit cycle of 2019/2020 the operation of Branch was affected by the covid19 pandemic and hence the three (3) selected performance audit topics audits that were undertaken and were carried over.

The carried over performance audits are; Tuition Fee Free Education Policy for years 2012 to 2018, Gazelle District Electorate Service Improvement Program for years 2007 to 2016 and Preparedness of Sustainable Development Goals of PNG. These special audit reports should be ready for tabling in the National Parliament during the year 2021.

14.3 Achievements

The Performance Audit Branch had undertaken and completed a number of performance audits since its establishment in 2009. The vision of the Auditor-General at that time was to bring PNG Auditor-General's Office up to par with its other Supreme Audit Institutions (SAIs) in the Pacific Region as well as internationally, with regard to operations of Performance Auditing. This is because performance auditing had become prominent in SAIs of the world. Consequent to this decision Performance Audit Branch had gradually grown and was able to produce number of Special Audit Reports on various performance audit topics/issues. The table below reflects the details of Special Audit Reports tabled in the National Parliament since 2011 to date showing achievements accomplished.

Table 10. Performance Audit Reports 2011-2020

| No | Title of Audit | Task | Status | Year tabled |
|----|---|--|------------------|-------------|
| 1 | Performance Audit Report of the Gazelle District Service Improvement Program (DSIP) for years 2007-2016 | To examine and ascertain the authenticity of the DSIP expenditure payments in compliance with Government procurement process, DSIP procedural requirements and applicable legislation. | Review completed | |
| 2 | Performance Audit Report on - Tuition Fee Free Education Policy 2012-2018 | to assess the effectiveness of the management and payments of the Tuition Fee Free subsidy to schools under the National Education System in PNG. | Review completed | |
| 3 | Performance Audit on the UN Sustainable Development Goals (SDGs) in Papua New Guinea | To assess the preparedness of the Government towards implementing the UN Agenda 2030 on Sustainable Development Goals | Ongoing | |

| | | | | |
|----|--|---|--------|------|
| 4 | Services Improvement Program (SIP) | To assess the effectiveness of payments and acquittals of service improvement program (SIP). | Tabled | 2019 |
| 5 | Performance Audit on Land and Geographical Information System (LAGIS) | To assess the effectiveness of Department of Lands and Physical Planning in managing the LAGIS enhancement Program | Tabled | 2019 |
| 6 | Performance Audit on Log Export Development Levy | To assess the effectiveness of the Management of the Log Export Development Levy | Tabled | 2018 |
| 7 | Special Audit on the Services Improvement Program (SIP) delivery for New Ireland and Milne Bay Provinces | Special review to assess the effectiveness of the delivery of the SIP in the provinces of New Ireland and Milne Day | Tabled | 2017 |
| 8 | Performance Audit on Manam Resettlement Program | Review of the effectiveness of the Madang Provincial Administration (Special Project Management Unit) in managing the Manam Island Resettlement Program and its status. | Tabled | 2017 |
| 9 | Performance Audit on the Budget Appropriation and Issue of Warrant Authorities | To assess the effectiveness of the Budget Process, its appropriation and subsequent release of warrant authorities | Tabled | 2015 |
| 10 | Performance Audit on Christian Health Services in Papua New Guinea | To assess the effectiveness of the Delivery of Christian Health Services in Papua New Guinea by main line Christian Churches | Tabled | 2015 |
| 11 | Special Report on the District Services Improvement Program (DSIP) | To review the effectiveness of the delivery of DSIP | Tabled | 2014 |
| 12 | Performance Audit on the Management of the Trust Accounts | To assess the effectiveness of the Management of Trust Accounts by Department of Treasury | Tabled | 2014 |
| 13 | Review of the Integrated Financial Management System (IFMS) Project | Review to consider key project risks related to the IFMS Project and give broad focus to the processes and controls that management has in place. | Tabled | 2014 |
| 14 | Performance Audit on Access to Safe Drinking Water (Cooperative Audit – PASAI) | To assess Safe Drinking Water in the National Capital District, Papua New Guinea | Tabled | 2013 |
| 15 | Performance Audit on Solid Waste Management (Cooperative Audit - PASAI) | To assess the effectiveness of solid waste management in the National Capital District, Port Moresby | Tabled | 2011 |

14.4 Way Forward

The Performance Auditing or the value for money audit is now considered as important audit employed by the SAIs to measure the performance of the public sector organisations in both developed and developing countries. An independent audit review of Government programs, undertakings, policies and systems does not only require compliance and financial auditing but also requires performance auditing to ensure that organisations are operating in accordance with the principles of economy, efficiency and effectiveness.

The Public Expenditure and Financial Accountability (PEFA) reform of the public sector report by Department of Finance (leading agency) assisted by other central government agencies as well as the World Bank recommended two (2) key priorities for the Auditor General's Office to implement in year 2015. These priority areas are:

1. Increase staffing in performance auditing and
2. Increase staffing and develop staff to conduct performance audits for significant public services.

The Office is required to implement the priority action items under the reform strategy for external audits as way forward in enhancing performance auditing. The Office has officially established the Performance Audit Branch in the Operational structure of the Office and this will enable the recruitment of more staff for the Branch in future. Due to government wide restriction on recruitment of public servants no new staff have been employed.

In terms of staff development and up-skilling the Branch continues to receive a training assistance from Australian National Audit Office (ANAO) and Pacific Association of Supreme Audit Institutions (PASAI).

15.0 FORENSIC AUDIT BRANCH

The Forensic Audit Branch (FAB) was established in 2014. The main objective for the establishment of the branch was to extend the audit functions of the Auditor-General by further enquiring into suspicious transactions of fraud in nature uncovered during the normal audits, reported cases and requests. This should demonstrate that the office is in the forefront to counter corrupt practices and thus contribute meaningfully to the Vision and Mission Statement of the PNG Auditor-General's Office.

15.1 Legal mandate

The creation and existence of the Forensic Audit Branch is drawn from Section 214(1) and (4) of the *Constitution* and Sections (3) to (5) of the *Audit Act, 1989*, (the Act).

15.2 Partnership with other agencies

AGO signed a Memorandum of Understanding (MOU) with Department of Police (Fraud and Anti-Corruption Office) and Public Prosecutors Office in 2008, which forms and sets in place a mutual cooperation between these agencies in dealing with fraud related matters. FAB therefore, has strengthened the relationship with these agencies, more particularly with the

National Fraud and Anti-Corruption Directorate. We also anticipate updating our respective MOUs with Department of Police and Public Prosecutors Office. We also forestall building on similar working relationships with other central government agencies and bodies such as the Bank of PNG, Ombudsman Commission and Transparency International (TIPNG).

15.3 **Assignments since the establishment of the branch**

Since its establishment in 2014, the Branch, has conducted assessment and audit of a number of agencies, on issues pertaining to performance, administration and financial management. As a result of its investigation work, 3 reports were produced and referred to the relevant authorities for further action. Since then assignments were not fully completed due to funding and other resource issues.

Table 11. Forensic audit assignments in the year 2020

| | Activity | Remarks | Progressive Action |
|----|--|--|--|
| 1. | Namatanai District DSIP Fund– payment for GPS satellite units for vessels | <ul style="list-style-type: none"> ● Preliminary assessment completed. ● Pending complete scope of investigation | To enlist help of police to investigate |
| 2. | Southern Highlands Province SIP | Preliminary assessment Completed. Too general to pursue | Shelved until specific allegations are submitted |
| 3. | Western Highlands Province- Baiyer to Madang Road fund misuse | Pending Preliminary assessment | Activity carried over to 2020 |
| 4. | Officer on attachment to assist Department of Police with their investigation into Department of Health’s Pharmaceutical Tendering and procurement process | | |

Note. The former three assignments were carry-overs from 2019 as these were not concluded due to funding constraints.

CHAPTER THREE – SUPPORT SERVICE

16.0 CORPORATE SERVICES DIVISION

The Corporate Services Division consists of the Corporate Management, Human Resources and Technical Services Branches. It provides support to the operational branches and keeps a professional relationship with stakeholders, external clients and other service providers in maintaining effective and efficient services in the areas of finance, human resources, administration, information technology and technical support.

17.0 CORPORATE MANAGEMENT BRANCH

This Branch is responsible for all financial matters of the office including:

1. Negotiating and securing adequate funding;
2. Ensuring the timely payment to service providers, creditors and audit clients;
3. Ensuring the proper administration and running of office fleet of vehicles;
4. Ensuring the efficient and effective operation of the accounting and payment system;
5. Developing relevant policies in line with the roles and functions of the Branch;
6. Maintaining adequate supply of materials and stores to support operations;
7. Liaising with key external partners for funding.

Our office migrated from the Attache Accounting System to the Integrated Financial Management System (IFMS) in 2018. IFMS is the new accounting and payment system used in the public service and is controlled and administered by the Department of Finance, whereby end users such as our office are connected to the system through the internet

18.0 HUMAN RESOURCES BRANCH

The 2020 Annual Report provides an opportunity to reflect on areas of people management, workforce planning activities and staff benefits administration.

The areas of focus in this report are;

- (a) Human Resources Annual Business Plan
- (b) Talent Development
- (c) Communication and Governance practices
- (d) Organisational Restructure
- (e) Employment Terms and Conditions
- (f) Staff Wellness and Wellbeing

18.1 Human Resources Annual Business Plan

Human Resources (HR) Branch identified 2 main strategies to contribute towards achieving the overall objective of the corporate plan.

- Develop, strengthen and improve the (existing) human Resource Management processes including appropriate inductions and internal and external trainings (refreshers/secondments)
- Improve and strategize terms and conditions and welfare of the workforce

During the cycle of the report, HR Branch has been on target with the planned activities and achieving the outcomes identified in the Business Plan.

18.2 Talent Development

The AGO pays CPA membership and examination fees for all registered Accountants within the office.

- 27 CPA + CAT Holders (18 males and females),
- 65 Registered Accounting Graduates (42 males and 23 females),
- 15 Registered Accounting Technicians (11 males and 4 females).

Through the Training Committee, various officers attended trainings both locally and internationally. See table below:

| Training Attended | Topic | Country | No. of AGO officers attending |
|------------------------------|---|---------------|-------------------------------|
| SAI Young Leadership Program | Performance Management Policy | South Africa | 2x officers |
| Auditing in IT Environment | IT Audit | India | 1x officer |
| IDI Workshop | Development of Advocacy Training in support of Independence | FSM - Pohnpei | 2x officers |
| Masters Program | Business Administration | New Zealand | 1x officer |
| Masters Program | Business Administration and Computer Science | Australia | 2x officer |
| Masters Program | Masters in Auditing | China | 1x officer |
| Degree Program | Public Finance & Accounting | PNG | 1x officer |
| Certificate Program | Public Service HR Business Process | PNG | 2x HR officers |

| | | | |
|---------------------------------------|---|------|-------------|
| Capacity Building Program (IDI/PASAI) | Strategy, Performance Measurement and Reporting | Fiji | 3x officers |
|---------------------------------------|---|------|-------------|

ASSOCIATION MEMBERSHIPS 2020

| LOCAL ASSOCIATION | |
|---------------------------|--|
| PNGIA | PNG Institute of Internal Auditors |
| PNGIA | PNG Institute of Accountants |
| PNGHRI | PNG Human Resources Institute |
| REGIONAL ASSOCIATION | |
| CPA-PNG | Certified Practising Accountants |
| PNGTDS | PNG Training & Development Society |
| PNGLS | PNG Legal Society |
| INTERNATIONAL ASSOCIATION | |
| ACAG | Australasian Council of Auditor Generals |
| ASOSA | Asian Organisation of Supreme Audit Institutions |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| PASAI | Pacific Association of Supreme Audit Institutions |

18.3 Communication and Governance Practices

HR Branch initiated a Communication Plan document for the purpose of setting a foundation for communication practices across the Auditor General's Office so that all officers can:-

- **communicate effectively externally** – in that the office achieve its mandated requirements whilst also engaging with a broad range of stakeholders through succinct and clear reports and other information, accessible via a range of electronic and non-electronics platforms.
- **communicate effectively internally** – by encouraging teamwork through Team bonding sessions, workable rewarding systems to boost staff morale and clear channels to enable staff to effectively share information and ideas across the organisation.

18.4 Organizational Restructure

The Auditor General's office organisational restructure was endorsed by the Department of Personnel Management to be implemented in the coming year. The restructure caters for the increase in audit portfolios and our audit mandate.

The restructure provides for the creation of two new sections; the IT Audit Section and Quality Assurance Section. The restructure also formally recognized the existence of Performance Audit, Forensic Audit and Projects Audit Branches.

18.5 Employment Terms and Conditions

HR Branch had engaged a consultant to assist and compile a submission to the Department of Personnel Management (DPM) for the purpose of ensuring that the Auditor General's office is able to offer competitive remuneration in the workforce and market place.

Housing is a major issue hence the office also endeavored in reviving the Employee Home Ownership Scheme by putting in place proper tools and resources.

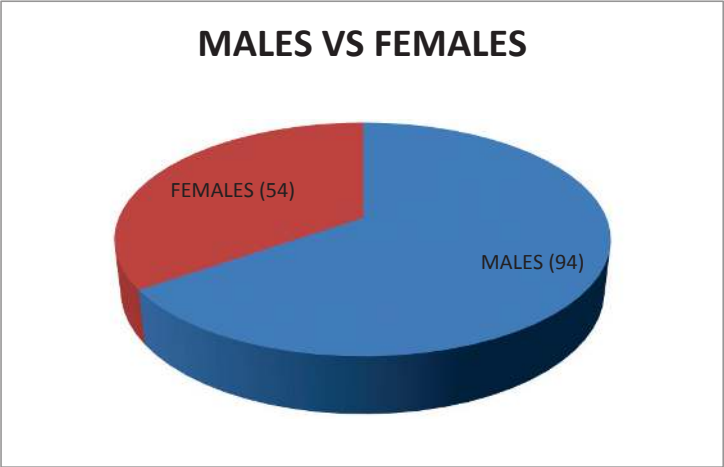
18.6 Staff Wellness and Wellbeing

The Auditor General’s office obtained a Staff Medical and Life Insurance Policy for all staff since 2016. The officers have options to utilize a private hospital to receive better and faster medical service. The facility has cut down on time loss taken out to attend to medical issues at public health facilities due to the unreliable services provided by the public hospitals.

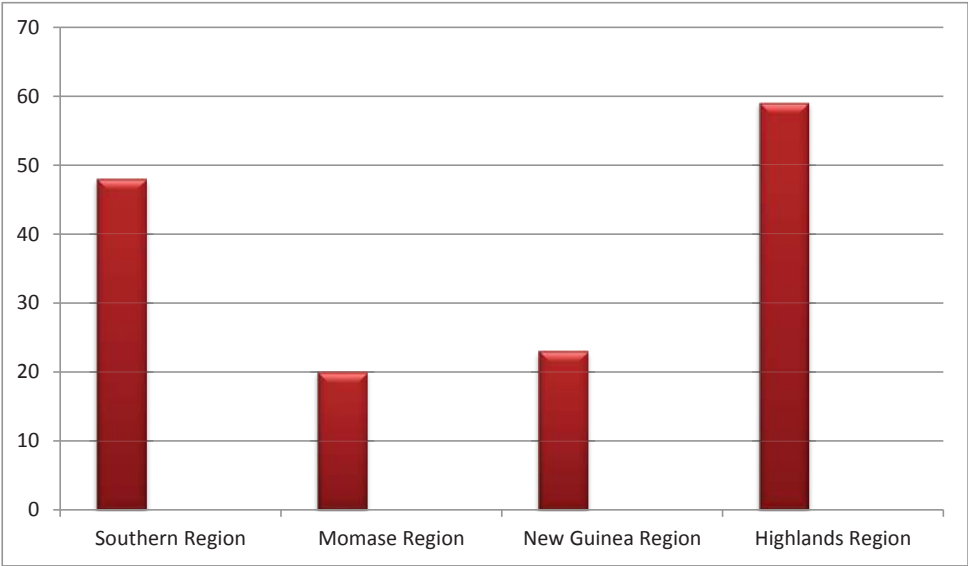
18.7 Human Resources Branch Annual Metrics Report

This Pie Chart demonstrates the number of Male and Female officers in AGO as of 2020.

There is an increase in female recruitment from 51 last year to 54 during the year and a decrease in male population from 96 to 94.



This Bar graph show staff numbers by Region as of 2020.



19.0 TECHNICAL SERVICES BRANCH

The primary functions of the Technical Services Branch are to assist the Auditor-General’s Office with the provision of strategic planning, policy monitoring and staff training and development, guidance on International Standards on Auditing and provide interpretations and guidelines on the latest updates on IFRS/IAS or IPSAS. The Branch is headed by an Assistant Auditor-General who reports to the Deputy Auditor-General Corporate Services Division.

After five years of implementing an in-house electronic audit working paper in the Head Office, this year Lae Audit Office became the first Provincial office to use the electronic audit working papers. We continue to provide technical support for the provincial audit team and monitor the progress of the audits where necessary.

We also received high technical assistance from Australian National Audit Office (ANAO) as part of the Institutional Partnership Program with the Auditor-General’ Office of PNG.

In 2020, the Branch’s major achievements in line with the Corporate Plan Objectives are:

19.1 Implementation of TeamMate Auditing Software (Electronic Audit Working Paper)

The Auditor-General’s Office is in the transition of the audit approach from manual to automation and from systems-based to risk-based audit approach. To embrace the change, the ‘TeamMate’ is being implemented using the ‘progressive implementation method’ approach since September last year.

The TeamMate is a comprehensive audit management system designed to help auditors manage all aspects of the audit process. It allows the auditors to;

1. identify risk and create assessment reports;
2. schedule projects and allocate resources;
3. capture time and expenses;
4. track audits and issues; and
5. create and manage audits via an advanced electronic working papers database.

To ensure that TeamMate is implemented to address the audit needs of AGO the Technical Services staff assisted in:

1. Implementing the Risk-Based Financial Audit Methodology, which complies with the financial guidelines of the International Standards of Supreme Audit Institutions (ISSAIs–Financial Audit Guidelines 1000 series and Compliance Standards 4000 series). Based on the general risk-based audit for accrual accounting, a customised Cash Basis accounting methodology have been created for the audit clients that use cash basis accounting;
2. Providing TeamMate administration with the Suite Setup, User Maintenance, Project Maintenance and other activities as required by the audit system;
3. Revised and customised electronic audit test procedures and working papers for different audit clients;
4. Conducting training courses on TeamMate application and the audit methodology for the AGO staff members both group and one-on-one sessions based on the needs of different staff levels;
5. Solving issues brought by the AGO TeamMate users both at the Head Office and Lae Audit Office;
6. Assisting audit teams with the audit project monitoring and quality control measures;
7. Drafting of TeamMate Audit Manuals for the accrual and cash basis accounting audit methodologies; and
8. Completing an in-house sampling method, which was reviewed and approved for use by the ANAO Technical Team.

At the end of the year, seven audits were conducted in TeamMate using the ‘progressive implementation’ approach method, the final audit pilot phase for the ‘Production’ stage, and three reports have been issued. Out of the three issued reports, one report was included in 2019 Part IV Report to Parliament, which was tabled in Parliament on 12 November 2020.

The automation of the Auditor-General's Office audit approach and the system is the way forward to carry out audit engagements. The Office is always tasked with getting more done despite the limited resources. When exploring the current processes and audit methodologies, the use of the TeamMate Auditing system is by far the most efficient way to increase audit productivity and ensure a high quality of audit outputs. By embracing this automated audit technology, staff can be able to work far more efficiently, produce more impactful reports that contain insights and foresights.

19.2 External Training and Support from Our External Partners

To ensure that the TeamMate Audit system is continuously supported during the implementation stage, the ANAO Technical Team conducted two separate visual training sessions for AGO executives and the TeamMate community of users.

In addition, two sessions of visual meetings for informatin sharing were held between the ANAO and AGO Technical Teams. Those sessions were part of the ANAO's Institutional Partnership Program with the AGO to provide continuous TeamMate methodology support where needed.

19.3 Auditing Standards and Quality Assurance

To ensure that our staff are well versed with international auditing standards, we continue to provide support through interpretations and practical applications of the standards in AGO's audit methodologies in TeamMate.

In addition, a road map document for the Quality Assurance of audits and other activities have been completed for implementation by the AGO.

19.4 Providing Updates on IFRS/IAS and IPSAS

To keep the staff of the Auditor-General informed with the latest developments from the International Financial Reporting Standards (IFRS) summaries of changes in IFRS were disseminated to the staff and stored in the office's shared drive for public viewing.

As the Auditor-General's Office heads to the future, the report will provide an insight on the primary functions of the Technical Services and how it assists staff carry out the mandated role of the Auditor-General by embracing new technology, fully complying with auditing standards and resourcing the office with the latest IFRS updates and relevant government laws and regulations.

20.0 INFORMATION TECHNOLOGY SECTION

The Covid-19 pandemic restrictions have presented new challenges to the Information Technology section. Immediate investments in hardware and software upgrades to support continuity of work through the new normal took precedence.

A dedicated hardware firewall was purchased and installed to replace the old software-based firewall. This new hardware firewall achieved two major purposes;

1. addressed immediate cybersecurity concerns; and
2. enabled remote Virtual Private Network (VPN) services.

With the firewall upgrade and VPN services installed, users are now able to work remotely while still connected directly to the office network. Enabling too the updating of TeamMate from outside the office.

ICT also moved to restore telephone, internet and printing services to all the regional offices. Computers for users in the regional centers were upgraded to the latest software and security updates.

Online collaboration facilities fitted in the main meeting room and all user computers installed with various applications to support virtual meetings and VPN connections.

All these upgrades to endpoint computers and services places additional stress on existing aging server infrastructure. Plans are in place to upgrade the server infrastructure and software upgrades to support the exponential growth in the use of ICT resources.

More incoming requests for ICT support services in various AGO project initiatives are impacting directly on ICT manpower resources. Plans are also in place to request recruitment of technically skilled resources to streamline and support the growth of ICT services to the Office of the Auditor-General.

21.0 AUSTRALIAN GOVERNMENT FUNDING

The office has been fortunate to secure technical assistance from the Australian Government through the Strongim Gavaman Program and Advisory Support Facility in 2020. An advisor is attached to my office, who is presently helping in programs relating to strengthening of the Office in line with the Corporate Plan strategies.

The capacity building exercise continues to be given top priority so that the Office is able to deliver quality audit services in line with its Corporate Plan. The use of adviser in this area is seen as the catalyst for improvement both in quality of human resources and the achievement of corporate goals.

The office also recognizes and appreciates the support of AusAid, the ANAO in allowing two of our graduate officers to attend graduate training programs in Australia, and the Queensland Audit Office for allowing two of our officers to attend on the job training in middle management during the year.

22.0 FINANCIAL REPORT OF THE AUDITOR-GENERAL'S OFFICE FOR THE YEAR ENDED 2020

Attached herewith is the audited Financial Report of the Auditor-General's Office for the year ended 31 December 2020, which represent transactions and the state of affairs of the office during the year.

OFFICE OF THE AUDITOR-GENERAL

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

OFFICE OF THE AUDITOR-GENERAL
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Management Declaration

In our opinion, the Statement of Receipts and Payments for the year ended 31 December 2020, and the notes to and forming part of the statement, represent transactions conducted by the Office of the Auditor-General of Papua New Guinea during the reporting period.

Except as disclosed in the accounts, we are of the opinion that:

- (a) The result of the Office of the Auditor-General operations for the year ending 31 December 2020 have not been materially affected by items, transactions or events of an abnormal character.
- (b) No circumstances have arisen which would render any amount shown in the statement misleading.
- (c) Contingent liability has been reported in the notes to the Financial Statement in regard to the outstanding group tax liability payable to Internal Revenue Commission (IRC). This amount become enforceable within the period of twelve months from the date of this report.



Gordon Kega, MBA, CPA
Auditor-General



Albert Kimisi
*Deputy Auditor-General
Corporate Services*

Statement of Cash Receipts and Payments

| | | 2020 | 2020 | 2019 | 2019 |
|---|-------|-------------------|--------------------|--------------------|-------------------|
| | | | Payments by | | Payments by |
| | | | Other | | Other |
| | | Receipts/ | Government | Receipts/ | Government |
| | | Payments | Entities and | (Payments) | Entities and |
| | Notes | K | External | K | External |
| | | K | Parties | K | Parties |
| <u>RECEIPTS</u> | | | | | |
| Appropriations from Government | 6 | 21,916,169 | - | 17,684,132 | - |
| Audit Fees collected | 3 | - | 17,510,344 | - | - |
| Other receipts | | 13,030 | - | 20,145 | 15,214,321 |
| Refund from Audit Fees Account | | 340,000 | - | - | - |
| Interest Income from Audit Fees Account | | - | 6,900 | - | - |
| Bank transfer from Main Account | | - | - | - | 11,475 |
| Total receipts | | 22,269,199 | 17,517,244 | 17,704,277 | 15,225,796 |
| <u>PAYMENTS</u> | | | | | |
| Salaries and Allowances, Wages & | | | | | |
| Employee Benefits | | 15,206,471 | - | 15,500,180 | - |
| Supplies and Consumables | | 371,309 | - | 519,117 | - |
| Utilities | | 237,389 | - | 192,566 | - |
| Administrative expenses | | 1,900,880 | - | 2,210,627 | - |
| Other operating expenses | | 1,505,285 | - | 1,112,154 | - |
| Capital Expenditure | | 244,794 | - | 209,003 | - |
| Authorized Auditors Fees (GST inclusive) | | | 17,325,256 | | 10,422,402 |
| Bank Fees | | - | - | - | 416 |
| Interest Income paid to Waigani Public Accounts | | - | 6,900 | - | 11,475 |
| Group Tax Paid (IRC) | | - | 919,072 | - | 534,782 |
| Refund to Main Account | | - | 340,000 | - | - |
| Total payments | 5 | 19,466,128 | 18,591,228 | 19,743,647 | 10,969,072 |
| INCREASE/(DECREASE) IN CASH | | 2,803,071 | (1,073,984) | (2,039,370) | 4,256,724 |
| Cash at beginning of the year | | 410,081 | 8,282,242 | 2,449,450 | 4,025,518 |
| Increase/(Decrease) in Cash | | 2,803,069 | (1,073,984) | (2,039,370) | 4,256,724 |
| Cash at end of the year | 3 | 3,213,152 | 7,208,258 | 410,081 | 8,282,242 |

OFFICE OF THE AUDITOR-GENERAL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

The Statement of Receipts and Payments has been prepared on cash basis in accordance with IPSAS Financial Reporting under the Cash Basis of Accounting. The receipts exclude receivables, and payments exclude expenditure incurred but in respect of which settlement has not been made at the balance date.

The Accounting Policies have been consistently applied throughout the year.

1.2 Reporting Currency

The reporting currency is Kina.

2. OFFICE OF THE AUDITOR-GENERAL

The principal activity of the Office of the Auditor-General is to inspect and audit, and to report at least once in every fiscal year to the Parliament on the Public Accounts of Papua New Guinea and on the control of and on the transactions with or concerning public moneys and property of Papua New Guinea, and such other functions as are prescribed by or under a law of Papua New Guinea.

3. AUDIT FEES ACCOUNT

- 3.1** The Office of the Auditor-General collects audit fees from the audit and inspection of the accounts and records of government entities and programs, which are deposited into the Audit Fees Account.
- 3.2** Separate accounting records are kept of the fees collected and the payments made out of the audit fees account, which are then reported in the Statement of Receipts and Payments at the year end,
- 3.3** Fees collected from audits undertaken internally by the Auditor-General's Office are wholly income for the Office.
- 3.4** Fees collected from outsourced audits are paid to the authorized auditors to only to the extent that payments are for the discharge of expenses, obligations and liabilities of the Auditor General as per contractual arrangement.
- 3.5** The Auditor-General's Office earns a monthly interest on the audit fees account as determined by Bank South Pacific Limited. However, such interests are transferred to the Waigani Public Accounts-Income (Department of Finance).

OFFICE OF THE AUDITOR-GENERAL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

4. CASH AND CASH EQUIVALENT

Cash and cash equivalents represent demand deposits and cash equivalents. Demand deposits and cash equivalents comprise balances with banks investments in short term money market instruments. Cash included in the Statement of Cash Receipts and Payments comprise the following amounts:

| | 2020 (K) | 2019 (K) |
|--|-------------------|------------------|
| Balance with bank - Operating Account | 3,213,152 | 410,082 |
| Balance with bank – Audit fees Account | 7,208,258 | 8,282,242 |
| Total | 10,421,410 | 8,692,324 |

5. SUMMARY OF OPERATING ACCOUNT EXPENDITURE

| Expense Description | Vote | 2020 (K) | 2019 (K) |
|---|------|-------------------|-------------------|
| Salaries and Allowances | 211 | 11,754,220 | 11,740,799 |
| Wages | 212 | 1,641,448 | 1,783,657 |
| Leave Fares | 214 | 402,031 | 458,678 |
| Retirement Benefits (POSF, Gratuity, Pension) | 215 | 1,408,772 | 1,471,845 |
| Education | 217 | 0 | 45,201 |
| Travel and Subsistence | 222 | 768,851 | 725,609 |
| Office Materials and Supplies | 223 | 130,267 | 212,607 |
| Operational Materials and Supplies | 224 | 241,042 | 306,509 |
| Transport and Fuel | 225 | 132,174 | 194,212 |
| Other Operational Expenses | 227 | 1,295,647 | 875,303 |
| Training | 228 | 107,715 | 359,955 |
| Utilities | 231 | 237,389 | 190,789 |
| Rental of Property | 232 | 821,354 | 817,457 |
| Routine Maintenance | 233 | 209,638 | 236,851 |
| Membership Fees, Subscription & Contribution | 251 | 70,787 | 113,394 |
| Office Furniture & Equipment Purchases | 271 | 244,794 | 209,003 |
| Total | | 19,466,129 | 19,741,869 |

OFFICE OF THE AUDITOR-GENERAL

6. SUMMARY OF 2020 APPROPRIATION

| | Appropriation (K) | Warrant/CFC (K) | Expenditure (K) | Variance (K) |
|--------------------------|----------------------|--------------------|--------------------|-----------------|
| Recurrent Expenditure | 25,272,000 | 21,916,169 | 19,466,129 | 2,450,040 |

Appropriation during the year was reduced after the Supplementary budget was passed.

7. SCHEDULE OF FIXED ASSETS

| Classification | Historical Cost as at 31/12/2020 (K) | Additions (K) | Historical Cost as at 31/12/2019 (K) |
|--------------------------|--|------------------|--|
| Furniture's and Fittings | 1,110,548 | 30,749 | 1,079,799 |
| Office Equipment | 1,130,728 | 2,231 | 1,128,497 |
| Information Technology | 3,412,893 | 211,814 | 3,201,079 |
| Motor Vehicle | 2,233,602 | 0 | 2,233,602 |
| Leasehold Improvements | 23,779 | 0 | 23,779 |
| Total | 7,911,550 | 244,794 | 7,666,756 |

8. GROUD TAX LIABILITIES

The Office of the Auditor General's owes to Internal Revenue Commission (IRC) a total of K17,778,265.31 of unpaid group taxes for the years 2017, 2018, 2019 and 2020 (K3,103,812.37, K5,156,547.63, K4,776,191.96 and K4,741,713.35 respectively). The group taxes were not paid due to the budget cuts by the Department of Treasury. The matter has been brought to the attention of the concerned authorities.

9. CONTINGENT LIABILITY

The Auditor General's Office may have a contingent liability to Internal Revenue Commission (IRC) with regards to the interest and penalties arising from unpaid group taxes.



Gordon Kega, MBA, CPA
Auditor-General

Date: 22/2/23



Albert Kimisi
Deputy Auditor-General
Corporate Management Division

Date: 22/2/23



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Independent Auditor's Report on the Auditor General's Office

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Auditor General's Office (the "Entity") which comprise the Statement of Receipts and Payments for the year ended 31 December 2020, and notes to the financial statements.

In our opinion, the accompanying financial statements of the Auditor General's Office for the year ended 31 December 2020, give a true and fair view of the Entity's receipts and payments for the year then ended in accordance with the Audit Act 1989 and International Public Sector Accounting Standards (IPSAS) financial reporting under the cash basis of accounting.

Basis for Opinion

We conducted our in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Auditor General's Office in accordance with the ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Auditor General is responsible for the other information. The other information comprises Managements Declaration for the year ended 31 December 2020, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Auditor General for the Financial Statements

The Auditor General is responsible for the preparation of the financial statements following the Audit Act 1989 and International Public Sector Accounting Standards financial reporting under the cash basis of accounting, and for such internal control as the Auditor General determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Auditor General is responsible for assessing the ability of the Auditor General's Office to continue as a going concern, disclosing, as applicable, matters related to going concerned and using the going concern basis of accounting unless management either intends to liquidate the Auditor General's Office or to cease operations or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted per the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Auditor General's Office's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor General.
- Conclude on the appropriateness of the Auditor General's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Auditor General's Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Auditor General's Office to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the Auditor General regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in cursive script that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in cursive script, likely belonging to Benjamin Lee.

Benjamin Lee

Registered under the Accountants Act 1996

Partner

Port Moresby, 22 February 2023

