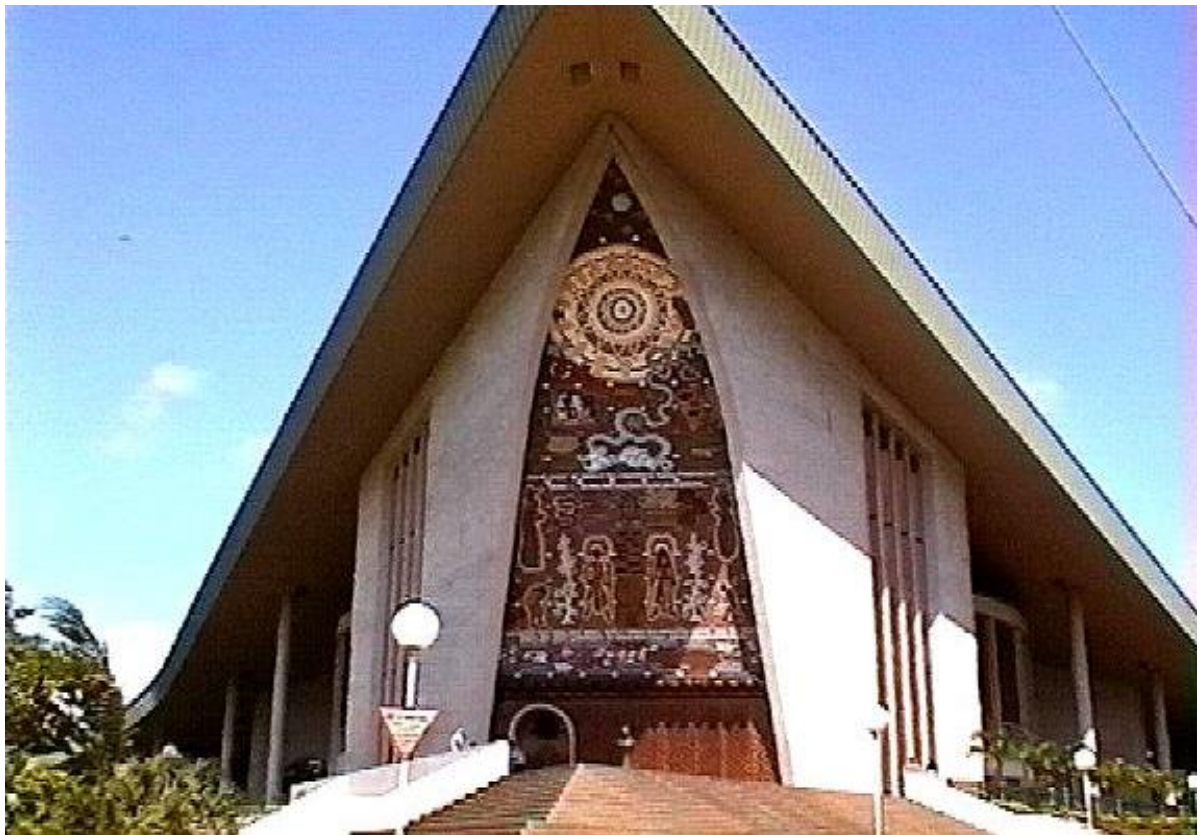




# **Report of the Auditor-General 2019**



**on the Public Accounts of Papua New Guinea**

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## **PART I Public Accounts of Papua New Guinea**

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***Auditor-General's Office of Papua New Guinea***





**REPORT**  
**of the**  
**AUDITOR-GENERAL**  
**2019**  
**on the Public Accounts**  
**of**  
**Papua New Guinea**

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**PART I**  
**Public Accounts of Papua New Guinea**

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27 August 2024

**The Honourable Job Pomat, MP**  
Speaker of the National Parliament  
Parliament Haus  
**WAIGANI**  
National Capital District

Dear Mr Speaker,

Under the authority of *Section 214 of the Constitution of the Independent State of Papua New Guinea*, I have the honour to transmit to the National Parliament, *Part I* of my *Report* for the year 2019.

My report embodies the results of audit of the transactions for the year as reflected in the detailed statement of the receipts and expenditures of the Public Accounts of Papua New Guinea for the financial year ended 31 December 2019, submitted to me for audit, on which I have been unable to express an opinion.

Yours sincerely,

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



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## Summary and Recommendations

- 1.** The Public Accounts of Papua New Guinea are an important element of open and accountable government. The presentation of the accounts to the Parliament fulfils a key stewardship obligation of the Government to report its financial performance during the reporting period. The purpose of this report specifically recognises the responsibility placed on entities to maintain effective control structures as part of good corporate governance. The Auditor General's Office (AGO) is committed to the timely reporting of significant matters to assist the Parliament in its oversight of government programs.
- 2.** Generally, the lack of reconciliations performed regularly throughout the year meant that significant effort was required at the end of the fiscal year to complete the financial statements for annual financial reporting purposes. As in previous years, there continues to be a need for greater discipline and management oversight in the financial statement preparation process. The results of the audit indicate that a number of entities are yet to implement the fundamental processes required for accurate and timely financial statement reporting. This has resulted in a disclaimer of opinion for the Public Accounts Audit of Papua New Guinea for 2019.
- 3.** The audit identified a number of significant matters around deficiencies in the application of the budgetary control framework. Specifically, there is a legislative requirement that all reallocations of funds issued by the Secretary for Treasury under the Appropriation Acts are to be made available through Reports in the National Gazette. This requirement forms the legal authority and basis for the transfer of funds from one allocation to another. However, no such Directions were published in the National Gazette for the 2019 financial year. In the absence of the statutory approval from the Secretary for Treasury, the transfers made during 2019 were not validated in accordance with the requirement of the Appropriation Act.
- 4.** The audit also identified instances where trust accounts were operating in breach of trust instruments, which require transactions to be recorded in the responsible entity's general ledger. The absence of transactions in the general ledger meant that the balances of the trust accounts could not be verified.
- 5.** Other significant issues that require attention and resulted in the inability to form an opinion on the Public Accounts include:

  - inadequate employee and wages records—transactions in most of the 25 audited agencies indicated that no payroll reconciliations had been performed;
  - there were discrepancies between the record-keeping processes maintained by the Department of Finance and Statement C of the Public Accounts. The AGO identified 311 trust accounts with bank accounts, however, most Trust Accounts were not substantiated with the required status reports maintained by the Finance Department on submission of bank reconciliations to confirm balances reported in Statement C;
  - seven trust accounts were overdrawn, constituting a breach of trust instrument;
  - proper accounts and records were not maintained for investments totalling K18.05 billion. The audit was unable to determine if the movement in balances recorded in the general ledger was accurate; and
  - there was a failure to maintain procurement registers, payment vouchers and other documentation to support payments, acquittals and advances in a number of agencies.

6. The priority for entities, is to embed sound financial management practices into their operations. This needs to be achieved in a way that is cost-effective and targeted at priority areas such as those outlined above. Taking such steps will enable entities to achieve a more efficient deployment of resources and will also contribute positively to corporate governance through an improved understanding of financial management issues.

7. The report makes a number of recommendations that are designed to address the major concerns in financial systems, controls, and processes. The AGO will focus future audit activity on these areas to assess whether there is improvement in the quality of the underlying control structures that support the reporting of public sector financial performance and accountability. This is also necessary for the efficient and effective management of public revenues and expenditures as well as to provide appropriate assurance to the Parliament.

8. A key step to improving financial reporting is for the Department of Finance to formalise the use of an internationally recognised financial reporting framework to underpin the preparation of the Public Accounts. A formal reporting framework would allow for consistency of financial reporting across financial years and enable relevant comparison of information between the government and the private sector.

9. In addition to the significant matters affecting my ability to express an opinion, there are a number of issues arising from these financial statements report, that need to be addressed by individual agencies, the Department of Finance and the Department of Treasury. Foremost amongst these is the need for entities to improve the timeliness and quality of financial information and to ensure that their accounting processes operate as designed to reduce the risk of misstatement due to irregularities, errors, or fraud. As in previous years, internal procedures need to be strengthened to ensure that the financial rules and the guidelines set by the government are followed. As well, there continues to be a need to enhance understanding of accounting systems, including developing and fostering the appropriate skills and experience to perform effectively.

## Recommendations

*Set out below are the recommendations identified during the course of this audit.*

<p style="color: #008000;"><b>Recommendation 1</b> <b>Paragraph 3.15</b></p>	<p>The Department of Finance should issue a financial instruction to clarify the basis for preparing the Public Accounts or the Government's Financial Statements. This instruction should ensure compliance with International Public Sector Accounting Standards (IPSAS) and is encouraged to continue collaborating with technical specialists to achieve full compliance with IPSAS in the preparation of the financial statements.</p>
<p style="color: #008000;"><b>Agency Response:</b> Department of Finance (DoF) acknowledged the gaps in reporting as well as the recommendation with respect to improving the integrity of financial information reported in the Public Accounts. The DoF has prepared a Gazettal Notice, which is awaiting the approval and signing by the Honourable Minister of Finance, pronouncing that the GoPNG shall adopt IPSAS Cash Basis of reporting as their reporting framework for preparation of the Public Accounts. From 2023, the Public Accounts will be prepared according to IPSAS cash basis of reporting. The DoF will work with all concerned departments and agencies to ensure that all extent issues are addressed and the financial statements are prepared which comply with all the reporting requirements.</p>	
<p style="color: #008000;"><b>Recommendation 2</b> <b>Paragraph 3.19</b></p>	<p>Amend the <i>Public Finance (Management) Act 1995 (As amended 2016) (PFMA)</i> to mandate that the Public Accounts of Papua New Guinea's Financial Statements be submitted for audit by March 31st of the year following the fiscal year end. This will enable the completion of the audit and reporting by June 30th, enhancing the timeliness and effectiveness of the audit process.</p>

## *Executive Summary*

<b>Agency Response:</b> The DoF has acknowledged the gaps with respect to financial reporting as well as the recommendations to address these gaps.	
<b>Recommendation 3 Paragraph 3.23</b>	Implement a complete bank reconciliation register and supporting documentation, including explanations for discrepancies, to verify the accuracy and validity of the reported account balances for the Government of Papua New Guinea's bank accounts.
<b>Agency Response:</b> The DoF acknowledged the gaps in reporting as well as the recommendation with respect to improving the integrity of financial information reported in the Public Accounts.	
<b>Recommendation 4 Paragraph 3.27</b>	The AGO recommends the Department of Finance strengthen the government's financial controls to ensure accurate reporting of receipts and expenditures.
<b>Agency Response:</b> DoF acknowledged the gaps with respect to financial reporting and takes full responsibility for addressing these in the subsequent Public Accounts. DoF has noted the recommendations of the Auditor-General and are ensuring that they work closely with all concerned agencies to ensure that financial information being reported in the Public Accounts is complete and accurate. For the preparation of the Public Accounts of 2023, the DoF Financial Reporting & Compliance Division (FRCD) is ensuring rigorous Quality Review (QR) of all information and will ensure that the highlighted issues are duly addressed. Efforts are underway to work with divisions within the DoF as well as with the Department of Treasury (DoT) and Department of National Planning and Monitoring (DNPM) to address the persistent issues and gaps in reporting.	
<b>Recommendation 5 Paragraph 3.32</b>	The AGO recommends the Department of Finance to ensure that appropriations are managed and monitored in accordance with the Finance Instructions and relevant internal policies and guidelines and that the expenditure is in accordance with appropriation limits set out in the Appropriation Act.
<b>Agency Response:</b> The Department of Finance has acknowledged the gaps with respect to financial reporting as well as the recommendations to address these gaps.	
<b>Recommendation 6 Paragraph 3.40</b>	The AGO recommends the Department of Finance undertake a stocktake of all Receiver of Public Money accounts and ensure that receipts recorded in each account are transferred in full to the Waigani Public Account. In addition, the Department of Finance should follow up on outstanding reconciliations and take appropriate action against those entities who fail to comply with reconciliation controls, as required by the Finance Instructions.
<b>Agency Response:</b> The Department of Finance has acknowledged the audit findings and agrees with the recommendation.	
<b>Recommendation 7 Paragraph 3.50</b>	The AGO recommends the Department of Finance ensures the timely completion and submission of bank reconciliations for all bank and trust accounts as required by the PFMA. Where reconciliations are not provided in a timely manner, the Department of Finance should commence prompt follow-up action, and ensure evidence of this action is retained for audit purposes.
<b>Agency Response:</b> The DoF has acknowledged the audit findings and agrees with the recommendation. DoF noted that the integrity of the Public Account Statement A is paramount to the accuracy of the Public Accounts. It contains all the national bank accounts including the Waigani Public Account (WPA), the Debt Repayment Account (DRA), all trust accounts, the Receiver of Public Monies (ROPM) accounts and the drawing bank accounts.	
<b>Recommendation 8 Paragraph 3.51</b>	The AGO recommends the Department of Finance ensure that new trust accounts are properly captured in its existing systems.
<b>Agency Response:</b> The DoF acknowledged and mentioned that the Trust Accounting Branch will take aboard the recommendation to undergo periodic audits of all trusts in IFMS to verify accuracy and completeness against the trust register.	

## *Executive Summary*

<p><b>Recommendation 9</b> <b>Paragraph 3.52</b></p>	<p>The AGO recommends that the Department of Finance develop formal reporting and monitoring processes capable of ensuring departments and agencies compliance with Finance Instructions relating to reconciliations, trust accounts and bank accounts.</p>
<p><b>Agency Response:</b> The DoF acknowledges the continued challenges in providing bank reconciliations that meet the required standards. Efforts are currently underway to put in place measures such as the establishment of several technical teams within key divisions to address the bank reconciliation issues both at the national and the subnational levels. The FRCD is working closely with the respective bank reconciliation teams within the department to ensure that all accounts, are properly reconciled, thereby reporting correct cash balances in the financial statements.</p>	
<p><b>Recommendation 10</b> <b>Paragraph 3.53</b></p>	<p>The AGO recommends that the Department of Finance takes immediate action to remove revoked trust accounts from IFMS and prevent departments and agencies from continuing to use these funds.</p>
<p><b>Agency Response:</b> The DoF has acknowledged the findings and takes note of the recommendation.</p>	
<p><b>Recommendation 11</b> <b>Paragraph 3.62</b></p>	<p>The AGO recommends the Department of Treasury:</p> <ul style="list-style-type: none"> <li>• undertake a reconciliation of balances reported in Statements G, J and L to ensure that amounts reported in the Public Accounts are complete and accurate; and</li> <li>• ensure that loans reported in CSDRMS should be reflected in IFMS for consistency, completeness and accuracy so that appropriate records are maintained and can be used to prepare the Public Accounts.</li> </ul>
<p><b>Agency Response:</b> The DoT Financial Management Division agrees with the recommendations and will conduct the necessary investigations into the discrepancies. The delay in resubmitting the statement was due to the 2024 budget. In 2019, the Accounting &amp; Settlement Branch was understaffed, therefore, there was no segregation of duties, no proper checks and balances and no proper reconciliation, however, this issue has been resolved with the recruitment of additional staff.</p>	
<p><b>Recommendation 12</b> <b>Paragraph 3.68</b></p>	<p>To ensure accurate and transparent reporting of government on-lending loan balances, the Department of Treasury's Finance Management Division should implement a multi-faceted approach encompassing data verification, improved recording procedures, robust reporting practices, enhanced oversight, staff training, stronger communication, and a culture of accountability.</p>
<p><b>Agency Response:</b> The DoT has acknowledged the findings and takes note of the recommendation to improve.</p>	
<p><b>Recommendation 13</b> <b>Paragraph 3.75</b></p>	<p>The AGO recommends the Department of Treasury develop and maintain a Register of Guarantees so that loan guarantees can be properly managed and monitored. The development of a Register has been recommended by the AGO since 2008 with the Department of Treasury having made little progress with its implementation.</p>
<p><b>Agency Response:</b> The DoT has acknowledged the findings and takes note of the recommendation to improve.</p>	
<p><b>Recommendation 14</b> <b>Paragraph 3.76</b></p>	<p>The AGO recommends that the Department of Treasury develop a memorandum of understanding with the National Executive Council to provide details of each new guarantee, or amendments to existing guarantees, to comply with National Executive Council requirements.</p>
<p><b>Agency Response:</b> The DoT has acknowledged the findings and takes note of the recommendation to improve.</p>	
<p><b>Recommendation 15</b> <b>Paragraph 3.81</b></p>	<p>The AGO recommends the Department of Treasury:</p>

## *Executive Summary*

	<ul style="list-style-type: none"> <li>• implement systems capable of capturing and recording information to support the valuation methodologies used for each investment; and</li> <li>• undertake reconciliations between supporting documentation and the Statement F disclosure to ensure the accuracy and completeness of the balances reported.</li> </ul>
<p><b>Agency Response:</b> The DoT has acknowledged the findings and takes note of the recommendation to improve.</p>	
<p><b>Recommendation 16</b> <b>Paragraph 3.83</b></p>	<p>In relation to Statement E, the AGO recommends the Department of Finance:</p> <ul style="list-style-type: none"> <li>• verify the closing balances of all trust fund investments, and obtain documentation to support these balances; and</li> <li>• upgrade or replace the current information systems used to record trust fund investments so that proper records are maintained in future years.</li> </ul>
<p><b>Agency Response:</b> The DoF has acknowledged the findings and takes note of the recommendation to improve.</p>	
<p><b>Recommendation 17</b> <b>Paragraph 3.86</b></p>	<p>The AGO recommends the Department of Finance conduct an evaluation and overhaul of Government departments' management of public assets.</p>
<p><b>Agency Response:</b> The DoF has acknowledged the findings and takes note of the recommendation to improve.</p>	
<p><b>Recommendation 18</b> <b>Paragraph 3.89</b></p>	<p>The AGO recommends the Department of Finance:</p> <ul style="list-style-type: none"> <li>• improve its record keeping procedures to ensure supporting documentation and evidence of appropriate approvals are retained; and</li> <li>• establish processes to ensure lease agreements are retained, and develop a lease register to monitor the Government's lease obligations.</li> </ul>
<p><b>Agency Response:</b> The DoF has acknowledged the findings and takes note of the recommendation to improve.</p>	

# 1. Overview of the Public Accounts and the Audit Approach

## The Role of the Public Accounts of Papua New Guinea

**1.1** The Papua New Guinea system of government depends on the availability of reliable and accurate financial information. The Public Accounts is a major source of financial information.

**1.2** The Government of Papua New Guinea is based on consent, formally given by representatives in Parliament through the approval of the budget, annual appropriations of supply, and passage of specific legislative proposals. Information on the intended benefits, cost, and financial effects of government proposals is needed before Parliament gives its consent. Reporting of financial information is needed to provide a basis on which Parliament can make decisions for the effective and efficient use of its financial resources.

**1.3** Some financial limits apply in relation to the Parliament's appropriation framework and financial records are needed to demonstrate that legislative controls and processes, including underlying departmental policies and procedures, have been complied with. Another important limit is jurisdiction—the practice of granting separate appropriations for the National Judiciary and National Parliamentary Services facilitates the separation of control and promotes financial accountability of the Speaker, Minister and Public Service managers.

**1.4** Information provided in the Public Accounts provides a basic overview of the Government's fiscal operations, and is intended to assist with the good governance and proper operation of Government functions. However, the system is dependent on the quality of the information provided.

**1.5** The Department of Finance has embarked on a project of improving the central accounting and reporting systems, and the further development of departmental processes. Many of the matters included in my report highlight areas that the Department of Finance should address as part of this project.

## Constitutional Authority

**1.6** Section 214 of the Constitution of the Independent State of Papua New Guinea requires the Auditor-General 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. The Auditor-General is also required to report 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. These functions are supported through and extended by the *Audit Act 1989* (the Act).

**1.7** Section 7, Sub-Section 2A, of the Act requires the Auditor-General's report to specify, among other things, whether the financial statements are based on proper accounts and records and are a fair representation of the financial operations for the period they cover. The Act sets out other matters that are to be covered in the Auditor-General's report such as the management of receipts and payments, investments of moneys and the acquisition and disposal of assets.

## Auditor-General's Parliamentary Reporting

**1.8** In accordance with the above requirements, audits are carried out and the findings are reported to the National Parliament in four parts:

- **Part I** – covers the audit findings, conclusions and recommendations on my audit of the Public Accounts of Papua New Guinea. This part explains the reasons supporting my opinion on the

Public Accounts. My auditor's report, and the financial statements to which it applies, for the year ended 31 December 2019 were provided to the Minister for Finance on 15 April 2024.

- **Part II** – covers the audit findings, conclusions and recommendations on my audits of National Government Departments, Instrumentalities and Agencies.
- **Part III** – reports on the results of the audits of Provincial and Local-level Governments, business arms of Provincial Governments and their subsidiary corporations.
- **Part IV** – reports on findings, conclusions and recommendations from audits of public bodies and their subsidiaries, state owned companies and state share-holdings in other companies.

**1.9** I also submit a copy of the Auditor-General's Annual Report to Parliament in accordance with *Section 19 of the Organic Law on Certain Constitutional Office Holders*.

## **Preparation of the Public Accounts**

**1.10** The AGO continues to work with the Department of Finance to improve the timeliness of financial reporting. The 2019 Public Accounts was received by my office in November 2022. This indicates that there was no improvement compared to the prior year. However, as reported in previous years, it is apparent that a number of entities see the preparation of financial statements as a once yearly process and not a continuous process where issues that have been raised in prior years need to be addressed and implemented over the course of the year. The AGO will continue to work with individual entities, however, I expect that departments in receipt of public funding should be actioning financial reporting requirements in a more timely manner.

## **Overview of Government Accounting**

**1.11** Government accounts are maintained in accordance with the *Public Finance (Management) Act 1995* and the Finance Instructions issued by the Department of Finance. Receipts and expenditures are brought to account only when money is actually collected or when a payment is made. The cost of goods and services received in one year is brought to account in the year of payment and not spread over the years during which the good or service may be used. Similarly, for revenue and other forms of income, revenue recognition is deferred until the cash is received.

### **Accounting for Receipts and Payments**

**1.12** Where expenditure is incurred in the current year and a recovery is made, or a refund is received in a subsequent year, the recovery or refund will be credited to the subsequent year's account. There was no evidence that attempts were made to increase the budgeted allocations by re-crediting the previous year's appropriation. However, if expenditure is incurred in the current year, and the recovery, or refund, is received within the same year, the recovery or refund will be re-credited to the current year's annual appropriation.

**1.13** For returns of revenue, the appropriation framework does not allow the reversal of revenue previously recognised. Instead, all refunds are recognised as an expense under the relevant Appropriation Act.

**1.14** Where an international agency makes payments directly to a supplier on behalf of a government entity, and there is an expectation of repayment (i.e. a loan), both the loan revenue and the expenditure is brought to account in the Government's ledger.

## **Trust Funds**

**1.15** A distinguishing feature of the Government financial system is the concept of fund entities, which is derived from the legislative controls around public finances. Under the fund entities concept, government revenues and loans accumulate in a central fund, and withdrawals from the fund are used to meet expenditure only when authorised by the Parliament. If an obligation incurred during a particular year is not met during or before the financial year end, the expenditure is carried forward and the obligation is met from the following year's Parliamentary authorisation. The framework does not allow for unspent current year funding to be rolled forward. Parliamentary authorisations, known as appropriations, are annual but there are special dispensations within the framework to allow for ongoing funding arrangements, usually through a trustee structure. Under these arrangements, Parliamentary appropriations, either for start-up assistance in the form of initial working capital or budget subsidies for operations, are paid into a separate fund and the moneys in this fund are carried forward from year to year. Monies paid into trust funds are subject to a higher level of scrutiny and control by Financial Instructions compared to normal public expenditure.

## **Accounting for Assets and Liabilities**

**1.16** Since Government accounts are reported on a cash basis, it is important that subsidiary accounts are maintained to provide accurate and complete reporting of the Government's assets and liabilities. According to the *Public Finance (Management) Act 1995 (As amended 2016) (PFMA)*, the following processes are expected to be implemented in every Government entity to properly record its assets and liabilities for reporting purposes:

- a) An asset register showing the date of acquisition for all assets with a purchase price equal to or greater than K1,000 and a useful life of more than one year. The asset register should record details of the asset's original cost, description of the asset and unique identifier (serial and model number). On disposal, the asset register should be updated for the date of disposal, method of disposal and any proceeds from the sale;
- b) Debtors' accounts showing the name and address of each debtor, the amount received and the amount owing, receipt number and other useful descriptive information;
- c) Vendors' accounts showing accounts received from suppliers (or personal claims) and registered for payment, particulars of payments, and amounts still owing; and
- d) An advances ledger showing the date of the advance, payments made, amounts receipted, an acquittal of expenditure, and the advance holder's particulars.

## **Audit Approach**

**1.17** The audit of the Public Accounts is planned and conducted with the objective of obtaining reasonable assurance that the financial statements are free from material misstatement.

**1.18** My audits are conducted in accordance with universally accepted Auditing Standards, International Standards on Supreme Audit Institutions (ISSAI) promulgated by the International Organization of Supreme Audit Institutions (INTOSAI).

## **Materiality and Risk of Material Misstatement**

**1.19** When planning an audit, two main factors determine the nature and extent of the work required and audit procedures performed: materiality and risk of material misstatement.

**1.20** Materiality represents a quantitative threshold calculated based on my assessment of whether the omission or misstatement of information would impact the economic decision-making of the Parliament. The materiality threshold is set deliberately low in order to detect any potential omissions or misstatements.

**1.21** Where misstatements fall below the materiality threshold, the amounts are reported to the Department of Finance and the responsible Minister and I request that all misstatements are corrected. Where misstatements exceed the materiality threshold, and the Department of Finance has not corrected the misstatement, I cannot provide an opinion that the financial statements are fairly presented, and will issue either a qualified opinion or depending on the seriousness of the breach, I may be unable to express an opinion.

**1.22** The second factor, risk of material misstatement, refers to the possibility that the country's financial statements contain errors or omissions that are significant enough to influence the decisions of users. These errors could be intentional (fraud) or unintentional (mistake). Two main factors contribute to the risk of material misstatement: Inherent and control risk. Inherent risk is the inherent susceptibility of a particular account or transaction to error regardless of internal control, and control risk is risk that an entity's internal controls won't be able to prevent or detect and correct a material misstatement. My audit is planned and designed to focus on areas with a higher likelihood of material misstatement.

**1.23** The second factor is audit risk. Where a higher risk is identified, a lower materiality threshold is calculated and a higher degree of audit testing will be required. An audit is not designed to test 100% of an entity's transactions and accounts, but is designed based on my assessment of risk, and on the size and complexity of the entity. Many of the audit procedures undertaken involve testing a selection of transactions, either through targeted testing, or random sampling.

## **2. Commentary on the Audit Opinion**

**2.1** I was not able to express an opinion on the government's financial statements due to a material limitation of scope. I have expressed a Disclaimer of Opinion, which means that I was unable to obtain sufficient and appropriate audit evidence to support the fair presentation of the Public Accounts.

**2.2** The Public Accounts provide a summarised financial overview of the Government's various activities, which include:

- appropriation funds available, received and expended by state agencies;
- revenue received and expenditure incurred during the year;
- the cash position as at 31 December 2019;
- borrowings and investments made by state agencies;
- losses by state agencies; and
- a summary of lending and guarantees provided by state agencies.

**2.3** In my view, records to support the Public Accounts of Papua New Guinea were not maintained and kept in accordance with government legislation. In addition, receipts and payments, investment of public moneys, and the acquisition and disposal of assets for the financial period ending 31 December 2019 have not been properly accounted for in accordance with the relevant legislation and these balances have not been able to confirm the completeness and accuracy of the balances disclosed in the financial statements. Paragraph 2.17 further explains my reasons for not expressing an opinion.

### **Overview**

**2.4** In issuing my opinion on the Government's financial statements, it is important to understand that an audit provides reasonable assurance as to the accuracy and completeness and fair presentation of the financial statements in accordance with an applicable financial framework. An audit is undertaken using a risk-based approach and applies the concept of materiality. Those items that are larger in amount and higher risk will attract greater audit attention. It is possible that due to the risk-based approach adopted, not all misstatements as a result of error or fraud will be detected.

### **The Audit Report**

**2.5** My audit opinion is set out in accordance with internationally recognised auditing standards and includes the following requirements:

- a final paragraph setting out my opinion and the basis for my conclusion;
- an opening paragraph outlining the scope of the audit engagement;
- a paragraph outlining the responsibilities of those charged with governance for the financial statements audit; and

- a paragraph outlining my responsibilities as the independent auditor.

## Scope of the Engagement

**2.6** The scope identifies the financial statements covered by my audit and upon which I have expressed my opinion. A summary of each statement is outlined below.

<u>Financial Statements</u>	<u>Information Conveyed</u>
• Statement A	<b>Statement of Public Account Balances.</b> This Statement reports the Government's year-end cash position.
• Statement B	<b>Consolidated Revenue Fund—Receipts and Expenditure.</b> This Statement summarizes the receipts and expenditures for the year.
• Statement C	<b>Trust Fund Receipts and Expenditure.</b> This Statement reports the list of monies held by the Government on behalf of a third party.
• Statement D	<b>Statement of Sources and Application of Funds.</b> This Statement reports the sources and application of funds during the year.
• Statement E	<b>Trust Fund—Particulars of Investments.</b> This Statement provides details of trust fund monies that have been invested.
• Statement F	<b>Statement of Direct Investments, Capital Contributions and Equity Option Rights.</b> This Statement records the Government's investments and ownership in companies and statutory authorities.
• Statement G	<b>Statement of Public Debt.</b> This Statement reports amounts owed by the Government to third parties.
• Statement H	<b>Statement of Lending.</b> This Statement aims to show what is owed to the Government by other parties;
• Statement I	<b>Statement of Loan Guaranteed by the Government.</b> This Statement reports the value of loans and commitments where the Government has guaranteed repayment in the event of the borrower's loan default.
• Statement J	<b>Receipts classified under Heads of Revenue Estimates.</b> This Statement provides details of receipts as summarised in Statement B; and
• Statement L	<b>Expenditure classified under Appropriation Division.</b> This Statement provides details of expenditures as summarised in Statement B.

**2.7** The transactions used to produce Statements A, B, C, E, J and L are recorded and maintained by the Department of Finance in the government accounting system, the Integrated Financial Management System (IFMS). Statement D is also produced by the Department of Finance but is maintained outside the IFMS. Statements F, G, H and I are drawn from the accounting system and other sources maintained by the Department of Treasury with input from other government entities.

These accounting systems including other sources are not interfaced with the Integrated Financial Management System (IFMS) but are independently generated and uploaded into IFMS. Often, the

data and information provided from these systems cannot be relied on due to significant material variance requiring reconciliations.

In addition to my audit of information pertaining directly to each Statement, there are certain requirements relating to maintenance of accounts, records, registers and control processes. These requirements are intended to provide assurance over the completeness of the information reported in the Public Accounts that I am required to audit. I have included commentary on these matters where necessary in my Report.

**2.8** I have also reviewed compliance with the financial legislative framework, particularly in relation to appropriation management, and provided commentary where breaches have been identified.

## **Responsibility for the Preparation of the Financial Statements**

**2.9** The Minister for Finance is responsible for the oversight of the finances of Papua New Guinea and for the preparation of a detailed statement of the receipts and expenditure of the Public Accounts. The Minister is also required to ensure that Parliament is informed of all transactions involving public monies through the presentation of the Public Accounts.

**2.10** The Secretary of the Department of Finance is responsible for the management of the financial affairs of the Government of Papua New Guinea. The Secretary is also responsible for the preparation and presentation of the Public Accounts and the information contained therein.

**2.11** Heads of all the Departments within the Public Service are responsible for the efficient management of their Departments, including financial management.

## **Auditor-General's Responsibilities**

**2.12** My responsibility is to undertake the audit and obtain sufficient and appropriate audit evidence as required by the International Standards on Supreme Audit Institutions (ISSAI) issued by the International Federation of Accountants (IFAC). These standards ensure that my audit is conducted with appropriate rigour and professionalism.

**2.13** The main objective of the audit was to determine whether the reported financial statements balances materially agree with the accounts and records maintained by the Department of Finance and to ensure that the balances fairly present and disclose the financial operations of the Government of Papua New Guinea during the financial year, at 31 December 2019. The audit of the Public Accounts included obtaining evidence through inspection, observation and the verification of balances through third-party confirmation.

**2.14** The results of the audits of material Government departments and agencies have also been considered as part of this audit.

**2.15** In addition, I have performed tests of controls, to assess the accuracy, completeness and reliability of balances and other financial information used during the financial statement preparation process. This audit is not designed to detect fraud, and therefore, the results of my audit cannot be relied upon to identify and/or disclose all such matters. However, the audit was planned and executed so that I can have a reasonable expectation of detecting material misstatements resulting from irregularities, including error and/or fraud.

## The Audit Opinion

**2.16** The audit opinion outlines my conclusion on the Public Accounts, and outlines whether:

- The financial statements have been prepared in accordance with proper accounts and records; and
- Whether the financial statements present fairly the Government's financial position, results of operations and the financial requirements as required under the applicable financial framework and relevant legislation.

**2.17** Consistent with prior years, I am unable to form an opinion on the Public Accounts for the 2019 financial year. Explanatory comments are outlined below.

## Limitation of Scope

**2.18** During the course of my audit I noted a number of significant and material discrepancies that limited the scope of my audit. These limitations significantly affected the extent and depth of my audit coverage and I could not satisfy myself that appropriate audit evidence had been obtained, sufficient to form an opinion on the financial statements.

## Accounts and records

**2.19** I also noted during the course of the audit, deficiencies in the maintenance of proper accounts and records and the absence or poor implementation of internal controls that limited my ability to verify the accuracy and completeness of the underlying transactions used to produce the financial statements.

## Other Legal and Regulatory Requirements

**2.20** In addition to the scope limitation and accounts and records issues, breaches of the Constitution and the *Public Finance Management Act 1995* were identified and reported. I noted non-compliance to keeping records and their transactions contrary to Finance Instructions and the *Public Finance Management Act 1995*. I also identified breaches of the Appropriation Act in regard to excess spending and monthly budget transfer Directions.

## **3. Commentary on the Public Accounts**

**3.1** The Department of Finance continues to work on improving the year-end preparation process of the financial statements. This includes improved documentation that supports and validates the financial statements balances, as well as maintaining a constructive relationship with the AGO.

**3.2** The AGO noted that some issues raised from previous years have been addressed. The efforts made by the Department of Finance in identifying all operating Trust Accounts and in working to develop processes designed to ensure compliance with legislative requirements is commendable. The AGO understands that it can take some time and significant departmental resources to fully implement the AGO's recommendations, and that the efforts in some areas are continuing.

**3.3** However, the number and magnitude of the audit issues identified in the course of the 2019 Public Accounts audit indicate that overall, there are ongoing significant weaknesses in the control environment both within the Department of Finance and in responsible agencies. In the AGO's view, the control activities, including delegations, authorisations, reconciliations, data processing, and IT system controls, were not sufficiently robust to prevent or detect fraud or errors.

**3.4** This chapter provides an overview of the control weaknesses and significant variances identified during the course of the audit. Each matter has been reported in detail to the Department of Finance's management team.

### **Concise Financial Reporting**

**3.5** The preparation and publication of a comprehensive yet concise annual financial report, similar to reports published by private sector corporations, would assist the Parliament and the public sector stakeholders in obtaining a complete picture of the Government's fiscal position and outlook.

**3.6** At present, the financial statements of the government (FSG) or the Public Accounts of Papua New Guinea are not presented in accordance with an internationally accepted accounting framework, such as the International Financial Reporting Standards (IFRS) or the International Public Sector Cash Basis of Accounting Standards (IPSAS) promulgated by the International Federation of Accountants (IFAC). At present, the Public Accounts are presented in accordance with a framework developed by the Department of Finance, and this needs to be updated.

**3.7** The AGO continues to work closely with the Department of Finance to identify improvements in the presentation of the Public Accounts. The AGO recommends the Department of Finance move towards a more universally accepted presentation and disclosure framework. The AGO acknowledges that this may take some time as the Department of Finance works with other Government agencies to further develop its internal financial reporting and control processes. The AGO also acknowledges that the Parliament and other users of the statements should also be consulted to ensure the needs of all users are addressed.

### **Departmental Audits**

**3.8** In forming my opinion on the Public Accounts, it is necessary to consider the impact of control weaknesses identified within Government departments and agencies. Identified control weaknesses reduce the level of confidence that I have that financial information is complete, accurate and reliable.

**3.9** A total of 25 departments and agencies were audited during the 2019 financial year. Departments and agencies are selected for audit based on the AGO's assessment of risk, and the materiality of the entity's balances in relation to the Public Accounts. The audits are designed to assess

the entity's controls and compliance with the relevant financial framework and assess the ability of the entity to produce complete, accurate and valid information for financial reporting purposes.

**3.10** There were significant control weaknesses and non-compliance issues identified during the audits of the major Departments which affected the overall accuracy of the Public Accounts balances that were reported. There was a high rate of non-compliance with the procurement and payment procedures. Further, there were no quotation registers maintained, payment vouchers were missing and others were not examined for completeness and accuracy before processing the payments, and a very high proportion of all payments were made from Pro-forma invoices rather than the original company tax invoices as acceptable source documents and evidence from suppliers.

**3.11** In the 25 Departments reviewed, there were significant weaknesses in the payment and acquittal of advances during the year 2019. Additionally, most of these agencies issued further advances to officers while their previous advances were outstanding. Asset Registers were either non-existent or were not properly maintained in the Departments that were audited.

## Audit Observations and Recommendations

**3.12** The remainder of this report provides a summary of the key audit observations and recommendations following my examination of the financial statements for the year ended 31 December 2019. The findings reported below relate to work performed in addition to the reviews conducted in each department, as discussed above.

## Statement of Significant Accounting Policies

**3.13** Financial statements are prepared and presented based on a defined set of accounting policies and practices, which encompass principles, basis, conventions, rules, and established procedures. However, a comprehensive financial framework outlining these specifics for departments to adhere to is currently lacking from the Department of Finance. Furthermore, the AGO identified that Public Accounts Disclosure Note 1.1, while mentioning the 'cash basis of accounting,' fails to provide sufficient detail regarding the specific accounting policies actually applied.

**3.14** The audit confirmed that the accounting policies outlined in the disclosure notes of the 2019 Public Accounts, complied with *the Public Finances (Management) Act 2016 (as amended)* and Finance Instructions.

## Recommendation 1

**3.15** *The Department of Finance should issue a financial instruction to clarify the process for preparing the Government's Financial Statements. This instruction should ensure compliance with International Public Sector Accounting Standards (IPSAS). The department is encouraged to continue collaborating with technical specialists to achieve full compliance with IPSAS in the preparation of the financial statements.*

## Public Accounts Preparation

**3.16** *The Public Finances (Management) Act 1995 (As amended 2016)* currently lacks a specific timeframe for the Minister of Finance, acting through the Department of Finance Secretary, to prepare and submit the Public Accounts to the Auditor-General after the fiscal year concludes. While the Act mandates "as soon as practicable" preparation, this ambiguity has resulted in extended delays.

**3.17** This issue, previously highlighted in my audits, has been acknowledged by the Department of Finance, who have committed to corrective actions. However, the delays in finalising the Public Accounts through 2019 significantly impacted my ability to deliver timely reports to the National Parliament.

**3.18** Timely audits are crucial as information in both the Public Accounts and the subsequent audit report loses relevance and usefulness the longer the finalization process takes. Ideally, the Public Accounts audit should be completed within six months of the fiscal year's end

## Recommendation 2

**3.19** *Amend the Public Finance (Management) Act 1995 (As amended 2016) to mandate that the Public Accounts of Papua New Guinea's Financial Statements be submitted for audit by March 31st of the year following the fiscal year end. This will enable the completion of the audit and reporting by June 30th, enhancing the timeliness and effectiveness of the audit process.*

## Public Account Balances

**3.20** Statement A presents a bank balance of K1.11 billion as at December 31, 2019. However, this figure includes concerning discrepancies. Trust account balances totalling K1.89 billion, an overdrawn investment trust fund of K8.73 million, and a K779.73 million Consolidated Revenue Fund (CRF) deficit are all incorporated into this amount.

**3.21** Furthermore, Note 1.3.1 discloses that the cash at bank figures in all statements, including Statement A, were derived from unreconciled bank balances. This lack of reconciliation raises significant concerns.

**3.22** Separate bank confirmations revealed a total bank balance of K1.79 billion, which significantly deviates from the figure reported in Note 14 of the 2019 Public Accounts (K1.11 billion). Unexplained variances between these two sources were identified for most bank accounts, with a total net variance of K674.3 million. Notably, some individual account discrepancies reached as high as K1.7 billion.

## Recommendation 3

**3.23** *Implement a complete bank reconciliation register and supporting documentation, including explanations for discrepancies, to verify the accuracy and validity of the reported account balances for the Government of Papua New Guinea's bank accounts.*

## Receipts and Expenditure

**3.24** Statement B of the Public Accounts reports total receipts of K26.37 billion for 2019, with K821.7 million (3.12%) collected by National Departments. However, audit testing at the department level failed to obtain sufficient evidence to confirm the accuracy and validity of these reported receipts.

**3.25** Similarly, Statement B discloses total expenditures of K26.4 billion in 2019, including K6.89 billion (26.11%) incurred by National Departments. My review of departmental budgetary controls revealed a significant concern: a substantial portion of their expenditures were misclassified within budget categories. This occurred either through the use of incorrect expenditure codes or unauthorized transfers between functions and divisions processed through journal entries to vote items lacking proper budgetary allocation

**3.26** Due to these limitations, I cannot conclusively determine the accuracy and validity of the receipts and expenditures reported in the Public Accounts.

## Recommendation 4

**3.27** *The AGO recommends the Department of Finance strengthen the government's financial controls to ensure accurate reporting of receipts and expenditures.*

## Section 3/ Section 4 Transfers

**3.28** The Secretary's advance is a mechanism available to the Secretary of the Department of Treasury to provide additional funding to entities when current funding is insufficient due to unforeseen circumstances. Section 3 of the *Appropriation (General Public Services Expenditure 2019) Act 2018* makes available for this purpose the money under Division 207 (Treasury & Finance Miscellaneous) for any activity under operational and capital expenditure.

**3.29** The AGO identified discrepancies in management of the Secretary's Advance, whereby, a total of K34.7 million was allocated in Section 3. While the advance was intended for unforeseen expenditures, the Secretary Control Register-IFMS B45 report revealed transfers and replenishments totalling K75.65 million. This indicated a breach of the Section 3(2)(e) threshold limitations and the Section 3(4) requirement for Parliamentary approval for increasing the advance.

**3.30** *Section 12 of the Appropriation (General Public Services Expenditure 2019) Act 2018* requires the Secretary of the Department of Treasury to publish a monthly report of all appropriation transfers made under the Act, and to publish the report on the Department's website. In addition, *Section 13 of the Appropriation Act* requires the Department of Treasury to provide copies of directions made in accordance with certain provisions of the Act to be provided at the conclusion of each quarter to the AGO.

**3.31** This information has not been provided to the AGO and the Department of Treasury had not prepared the monthly reports, in breach of the Appropriation Act. These are serious breaches of the Department of Treasury's responsibilities as the information assists the AGO in its completion of the audit, and is important information for the Parliament and other stakeholders.

## Recommendation 5

**3.32** *The AGO recommends the Department of Finance ensure that appropriations are managed and monitored in accordance with the Finance Instructions and relevant internal policies and guidelines and that the expenditure is in accordance with appropriation limits set out in the Appropriation Act.*

## Cash Management

### Bank Reconciliations

**3.33** Bank reconciliations are an important control designed to ensure that receipts and payments are accurately processed, errors are identified, or any misappropriation of funds is detected promptly. Bank reconciliations are a mandatory control under the Finance Instructions and must be performed on a monthly basis, for all bank accounts. A review was undertaken to determine the extent to which the departments and agencies complied with the requirement during the 2019 financial year.

**3.34** Note 16 of the Disclosure Notes to the Public Accounts revealed that in 2019, drawing accounts, Trust Accounts, Provincial and Local Level Government and Government Agencies disclosed an accumulative total balance of K1.1 billion as at 31 December 2019. However, no proper audit was done due to bank reconciliation status not being provided by the Finance Department.

### Waigani Public Account

**3.35** The Waigani Public Account (WPA) is the PNG Government's Main Operating Account. Although, the bank reconciliations were prepared for the months of January to December 2019, there were discrepancies between the WPA 2018 closing balance and 2019 opening cash balances.

**3.36** The stated closing balance of the WPA for 2018 and the subsequent opening balance for 2019 were reported in the Public Accounts as K702.3 million. However, an examination of the cashbook and

bank reconciliation identified the closing balance to be K29.03 million. This represents a material variance of K673.90 million.

**3.37** Despite seeking clarification and additional information from both the Department of Finance and the Department of Treasury, the AGO has been unable to obtain evidence supporting the reported change in balance. As a result, I was unable to confirm the accuracy of the opening balance of the Waigani Public Accounts for 2019.

#### Receiver of Public Monies (RPM) Account

**3.38** Money collected by the National Government must be deposited into a Receiver of Public Monies (RPM) bank account, which is transferred periodically into the WPA. All provinces are required to open an RPM bank account to enable financial transfers to the National Government. RPM bank accounts must be reconciled on a monthly basis.

**3.39** There were a total of 35 RPM bank accounts (one main account and 34 subsidiaries) in the 2019 financial year. AGO identified that the main RPM account has not been reconciled since 2015. Of the 34 subsidiary accounts, only two reconciliations were provided for audit, however, one of these accounts was not recorded in the IFMS and was omitted from the 2019 Public Accounts disclosures. Additionally, one of the reported 33 RPM accounts, though closed in 2018, was included in the 2019 Public Accounts. Reliance could not be placed on the year end balances due to all records not being made available.

### Recommendation 6

**3.40** *The AGO recommends the Department of Finance undertake a stocktake of all Receiver of Public Money accounts and ensure that receipts recorded in each account are transferred in full to the Waigani Public Account. In addition, the Department of Finance should follow up on outstanding reconciliations and take appropriate action against those entities who fail to comply with reconciliation controls, as required by the Finance Instructions.*

## Human Resource Management

**3.41** Personnel emoluments, encompassing salaries, allowances, wages, overtime, and leave fares for public servants and Parliamentarians, constitute a significant expense for the Government of Papua New Guinea. In 2019, K5.31 billion was spent on these items, representing 19% of the total expenditure (K26.4 billion) reported in Statement B of the Public Accounts. However, a lack of regular payroll reconciliations by Human Resource departments and infrequent updates to employee leave, allowance, and tax declaration records hindered my ability to fully verify the accuracy and validity of these expenditures.

## Trust Account Management

#### New Trust Accounts established in 2019

**3.42** The AGO confirmed that seventeen new trust accounts were created during the 2019 financial year, which were not reported in Statement C.

#### Trust Account Reconciliations

**3.43** Under *Section 19 of the PFMA*, departments and agencies responsible for trust accounts must submit a monthly estimate of receipts and payments for each trust account to the Department of Finance. I observed:

- No proper records kept and maintained by the Department of Finance regarding monthly bank reconciliations received from departments and agencies.

**3.44** While I acknowledge the progress made by the Department of Finance in addressing this issue from prior years, the significant reconciliation issues meant I was unable to determine the accuracy of the cash balance held in the trust accounts.

#### Discrepancies identified in Statement C

**3.45** Statement C reports the receipts and expenditures recorded in trust accounts. My audit identified the following discrepancies, which need to be corrected by the Department of Finance:

- Forty-one trust accounts totalling K48.9 million reported in 2019 statement C lack evidence to ascertain their existence and accuracy.
- Twelve trust accounts reported in 2018 Statement C were not reflected in 2019 Statement C. These accounts have zero balances in IFMS and no corresponding bank balances. There was no approval from the Minister of Finance for these trust accounts revocation.
- The trust bank reconciliation register records show a total of 381 active trust accounts, however, 2019 statement C only reported 311 active trust accounts resulting in a variance of 70 trust accounts not reported in 2019.

**3.46** In addition, the notes to the Public Accounts stated that cash at bank does not include bank accounts which could not be verified through bank reconciliations. The value of potential misstatement due to this control breakdown cannot be determined.

#### Overdrawn Trust Accounts

**3.47** The AGO also confirmed that seven trust accounts were overdrawn during the 2019 financial year, resulting in an aggregate overdrawn balance of K29.83 million.

**3.48** The lack of accountability over bank accounts, cash management and trust accounts is a serious breach of the PFMA and Finance Instructions, which has prevented me from forming an opinion on the fair presentation of the disclosure in Statement C of the Public Accounts. In particular, the Department of Finance should increase its focus on ensuring entities' compliance with the Finance Instructions for the reconciliation of bank accounts, and where required, impose penalties on non-compliant departments and agencies.

**3.49** A number of actions are required to address the risks in the recommendation below;

### **Recommendation 7**

**3.50** *The AGO recommends the Department of Finance ensures the timely completion and submission of bank reconciliations for all bank and trust accounts as required by the PFMA. Where reconciliations are not provided in a timely manner, the Department of Finance should commence prompt follow-up action, and ensure evidence of this action is retained for audit purposes.*

### **Recommendation 8**

**3.51** *The AGO recommends the Department of Finance ensure that new trust accounts are properly captured in its existing systems.*

### **Recommendation 9**

**3.52** *The AGO recommends that the Department of Finance develop formal reporting and monitoring processes capable of ensuring departments and agencies comply with Finance Instructions relating to reconciliations, trust accounts and bank accounts.*

## Recommendation 10

**3.53** The AGO recommends that the Department of Finance takes immediate action to remove revoked trust accounts from IFMS and prevent departments and agencies from continuing to use these funds.

### Government Borrowings and Loans

**3.54** Statement G reports the Government's borrowings as at 31 December 2019 and shows the movement as a result of repayments and additional borrowings between the prior and current years.

#### Discrepancies Identified in Statement G

**3.55** I identified that the closing balance for Statement G, as at 31 December 2018, was K29.1 billion which did not agree to the 2019 opening balance of K28.8 billion, resulting in a discrepancy of K261 million. This was not corrected by the Department of Finance.

**3.56** According to the official records, Statement G indicated a total payment of K14.38 billion. However, upon recalculating and cross-referencing the data, the audit determined the actual total payment to be K14.49 billion. This resulted in an understatement of K117.39 million in the total payment amount reported in Statement G.

#### Discrepancies Between CSDRMS and Statement G

**3.57** The Commonwealth Secretariat Debt Recording and Management System (CSDRMS) reported a closing balance of K31.1 billion for the total public debt as at 31 December 2019. This amount differed from the K31.9 billion reported in Statement G. This discrepancy of K720.92 million remains unexplained.

**3.58** Inconsistency between the Commonwealth Secretariat Debt Recording and Management System (CSDRMS) and Integrated Financial Management System (IFMS). This discrepancy demonstrates a lack of appropriate reconciliations.

#### Discrepancies Between Statement G and Statement J

As noted above, Statement G reports the Government's total borrowings. Statement J records the total revenues received by the Government during the financial year. The movement in Statement G should reconcile to total loan service balance reported in Statement J. In borrowings, I identified that the total amount of loans obtained from creditors aggregating to K14.7 billion reported in 'Statement G' did not agree to the total loan service disclosed in 'Statement J' of K13.1 billion. This resulted in a net understatement of revenue of K1.6 billion.

#### Discrepancies Between Statement G and Statement L

**3.59** Statement G includes details of borrowings repaid during the financial year. To make a repayment, a valid appropriation must be available to draw the funds from the CRF. Statement L reports monies drawn from the CRF under an appropriation.

**3.60** Statement G indicates a total repayment of K14.4 billion while Statement L shows a contradictory Public debt amount of K13.1 billion resulting in an unexplained variance of K1.3 billion.

**3.61** The disclosure in Statement G was a poor presentation of unreconciled errors and anomalies. I was not provided with relevant supporting documents or the necessary explanations for the anomalies and discrepancies noted.

## Recommendation 11

**3.62** *The AGO recommends the Department of Treasury:*

- *undertake a reconciliation of balances reported in Statements G, J and L to ensure that amounts reported in the Public Accounts are complete and accurate; and*
- *ensure that loans reported in CSDRMS should be reflected in IFMS for consistency, completeness and accuracy so that appropriate records are maintained and can be used to prepare the Public Accounts.*

### Statement H – On-Lending

**3.63** Statement H reports the negotiated loans that were on-lent to the Statutory Bodies and other organisations between the prior and current years.

**3.64** There was inconsistency in updating the loan on-lending records. A number of these loans may be aging loans that need to be written-off.

**3.65** The total principal amount (received from borrower) on Statement H was found to be understated by K325,000 (The Statement H reported K324,000 while the payment voucher and receipt showed K649,900) and the total interest amount (received from borrower) was understated by K11,200 (The Statement H reported K17,000 while the payment voucher and receipt showed K28,200).

**3.66** Department of Treasury (DoT) failed to disclose nine on-lent loans valued at K2.3 billion to State-owned Enterprises (SOEs) in 2018 Statement H but these loans appeared in the 2019 Statement H. These were no newly acquired loans, they were from years 2008 to 2017.

**3.67** I identified inconsistencies between the loans documented in the CSDRMS report 502 and those reported in Statement H. A total of fifty-one (51) loan instances were identified recorded in the CSDRMS Report 502. These loans were not accounted for in Statement H. A total of twelve (12) loan instances reported in Statement H were absent from the CSDRMS Report 502.

The Statement H total on-lending as at 31 December 2019 was K2.4 billion. This account was not properly reconciled, fairly kept and adequately maintained, therefore I was unable to verify and confirm the validity and the correctness of the reported balance.

## Recommendation 12

**3.68** *To ensure accurate and transparent reporting of government on-lending loan balances, the Department of Treasury's Finance Management Division should implement a multi-faceted approach encompassing data verification, improved recording procedures, robust reporting practices, enhanced oversight, staff training, stronger communication, and a culture of accountability.*

### Statement I - Guarantees

**3.69** The “Statement I” lists the Government guarantees provided over loans made to Statutory Bodies and other agencies.

**3.70** The initial submission of Statement I by the Department of Finance lacked any comparative data or figures from previous years. Despite assurances from the Department of Treasury that this issue would be addressed by issuing a revised version of Statement I during the audit process, the updated statement was not provided to the audit up to the publication of this report. Therefore, the comparative analysis necessary for a comprehensive understanding of the state's loan guarantees remains outstanding.

**3.71** The AGO noted that the Department of Treasury does not maintain a register of guarantees, but rather requests the information at financial year end from all debtors. Statement I is updated to reflect the information provided by debtors.

**3.72** The domestic guarantee loans were recorded in CSDRMS, however, audit noted that there was a discrepancy in the total interest payment between Statement I and Statement L. The total interest payment of K70.3 million reported in 'Statement I' did not agree with the amount disclosed in 'Statement L' of K68.5 million. This resulted in an unexplained variance of K1.8 million.

**3.73** In addition, the Department of Treasury did not provide the audit team with copies of loan documentation. The AGO was unable to verify the agreed loan amounts or repayment schedules, and could not confirm the completeness of Statement I.

**3.74** The Statement I total domestic and overseas guarantees as at 31 December 2019 was K14.04 billion. This account was not properly reconciled, fairly kept and adequately maintained, therefore, AGO was unable to verify and confirm the validity and the correctness of the account balance.

### Recommendation 13

**3.75** *The AGO recommends the Department of Treasury develop and maintain a Register of Guarantees so that loan guarantees can be properly managed and monitored. The development of a Register has been recommended by the AGO since 2008 with the Department of Treasury having made little progress with its implementation.*

### Recommendation 14

**3.76** *The AGO recommends that the Department of Treasury develop a memorandum of understanding with the National Executive Council to provide details of each new guarantee, or amendments to existing guarantees, to comply with National Executive Council requirements.*

## Investments

### Valuation of Investments

**3.77** Statement F of the Public Accounts reports K18.05 billion worth of investments in Public Companies, Public Bodies and other organisations. However, AGO noted that there was a significant discrepancy in Statement F, where the reported total was overstated by K5.90 billion. The correct Statement F balance should be K12.15 billion as at 31 December, 2019.

**3.78** Kumul Consolidated Holdings (KCH) was valued at K4.58 billion in Statement F which was the value for 2018, the correct figure for the net assets was K28.57 million per its audited accounts for the year ended 31 December, 2019. It would appear that the net assets of the General Business Trust have been included in the valuation of the trustee entity Kumul Consolidated Holdings. However, as the investments in the General Business Trust are already separately included in Statement F this leads to assets being "double" counted and total investments being overstated by K5.24 billion.

**3.79** As part of the AGO's audit of Statement F, the AGO was not provided with a formal Investment Register, relevant explanations or the required ledger records and the relevant documentation or details including the movements and the variances that occurred during the year.

**3.80** The unavailability of a register and records led to the AGO's inability to verify the valuation methodologies and has resulted in my inability to form an opinion on the completeness and accuracy of Statement F.

### Recommendation 15

**3.81** *The AGO recommends the Department of Treasury:*

- *implement systems capable of capturing and recording information to support the valuation methodologies used for each investment; and*
- *undertake reconciliations between supporting documentation and the Statement F disclosure to ensure the accuracy and completeness of the balances reported.*

### Discrepancies Identified in Statement E

**3.82** Statement E provides details of trust fund investments as at 31 December 2019 in relation to Statement of trust fund investments; the AGO identified that:

- The Statement reported negative balances which Department of Finance explained was due to the balances being State liabilities. However, AGO maintains the view that this may create ambiguity among stakeholders resulting in a misunderstanding of the financial statements. Investment is categorised as an 'asset' therefore balances of these six trust accounts should have debit balances. There is an inconsistency in the disclosure reported in Statement E; and
- Trust Fund balances aggregating K7.5 million could not be confirmed due to non-availability of supporting documents.

### Recommendation 16

**3.83** *In relation to Statement E, the AGO recommends the Department of Finance:*

- *verify the closing balances of all trust fund investments, and obtain documentation to support these balances; and*
- *upgrade or replace the current information systems used to record trust fund investments so that proper records are maintained in future years.*

## Asset Management

### Losses and Deficiencies

**3.84** The PFMA sets out the requirements for the reporting of losses of public money and property, and also requires that public bodies maintain records and control over assets within its custody. The AGO notes that the 2019 Public Accounts did not report the losses and deficiencies for the year ended 31 December 2019.

**3.85** The lack of monitoring and oversight of public assets represents a serious fraud risk to the Government.

### Recommendation 17

**3.86** *The AGO recommends the Department of Finance conduct an evaluation and overhaul of Government Departments' management of public assets.*

## Purchases and Payments

### Operating Expenditure

**3.87** Each year, the AGO tests the controls and procedures around payments and expenditure and assesses the reliability of the data recorded in the IFMS for financial statement purposes.

**3.88** In 2019, total expenditure as recorded in the IFMS was in deficit of K13.4 million. The AGO selected a sample of significant expenditure items within a number of Government departments and agencies and noted the following:

- The requested lease documentation, including copies of lease agreements, and the lease register, was not provided despite multiple requests;
- Multiple instances where documentation supporting the payments was not provided, the payments were not certified prior to processing, or the funds had not been properly committed or approved prior to payment; and
- Multiple instances where three quotations were not obtained prior to selecting the preferred vendor, contrary to the Financial Management Manual.

## **Recommendation 18**

**3.89** *The AGO recommends the Department of Finance:*

- *improve its record keeping procedures to ensure supporting documentation and evidence of appropriate approvals are retained; and*
- *establish processes to ensure lease agreements are retained, and develop a lease register to monitor the Government's lease obligations.*

## **ACKNOWLEDGMENT**

I would like to thank my staff in undertaking the audit work that is reflected in this report. Their tireless efforts have enabled the preparation of this report.

The full co-operation and the assistance rendered to the Auditor- General by all Heads of Departments and their staff members is also acknowledged.

Finally, I would also like to thank the Chairman of the Parliamentary Public Accounts Committee and his staff for their continued interest and support to the Papua New Guinea Auditor-General's Office.

**SIGNED AT WAIGANI THE TWENTY SEVENTH DAY OF AUGUST, YEAR TWO THOUSAND AND TWENTY FOUR.**



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