



# **Part 3**

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

### **2011 – 2013**

**on the Accounts of Provincial and Local-level Governments and  
associated entities**

- 
- Provincial Governments
  - Local-level Governments
  - Hospital Boards
  - Business Arms and Subsidiary Corporations
  - Provincial Authorities
  - Other Audits





## **Part 3**

# **Report of the Auditor-General 2011 – 2013**

**on the Accounts of Provincial and Local-level Governments and  
associated entities**

- 
- Provincial Governments
  - Local-level Governments
  - Hospital Boards
  - Business Arms and Subsidiary Corporations
  - Provincial Authorities
  - Other Audits





Phone: (+675) 3012200 Fax: (+675) 325 2872 Email: agopng@ago.gov.pg Website: www.ago.gov.pg

---

30 July 2014

***The Honourable Theodore Zurenuoc, MP***

Speaker of the National Parliament

Parliament House

**WAIGANI**

National Capital District

Dear Mr Speaker

In accordance with the provisions of Section 214 of the *Constitution of the Independent State of Papua New Guinea*, I have the honour to transmit to the National Parliament Part III of my Report.

The Part III 2011 – 2013 Report covered the financial years ending 2011 – 2013. This Report embodies the results of audits of each of the Accounts of Provincial Governments and Local-level Governments, their Business Arms, Funds and Trusts, and Hospital Boards.

Yours sincerely,

A handwritten signature in blue ink that reads 'Philip Nauga'.

**PHILIP NAUGA**

*Auditor-General*



## Table of Contents

FOREWORD .....	1
1. ROLE OF THE AUDITOR-GENERAL AND AUDIT MANDATE .....	3
1.1 Role of the Auditor-General.....	3
1.2 Mandate of the Auditor-General .....	3
2. SCOPE OF AUDIT .....	5
2.1 Introduction .....	5
2.2 Appointment of an Agent Auditor .....	5
2.3 Dispensation of Audits .....	5
3. RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS .....	7
3.1 Audit Opinion.....	7
3.2 Financial Statements of Provincial and Local-level Governments .....	7
3.3 Financial Statements of Hospital Boards.....	13
3.4 Financial Statements of Business Arms and Subsidiary Corporations .....	14
3.5 Financial Statements of Provincial Authorities.....	14
3.6 The Role of the Treasury Offices .....	14
3.7 Other Audits .....	15
3.8 Audit Fees.....	15
4. CONTROL ENVIRONMENT.....	16
4.1 Introduction .....	16
4.2 Responsibilities of Management .....	16
4.3 Responsibility of the Auditor-General .....	16
4.4 Details of Control Issues .....	17
4.5 Conclusion.....	21
5. RESULTS OF AUDITS PER PROVINCE .....	23
5.1 BOUGAINVILLE AUTONOMOUS GOVERNMENT .....	23
5.2 CENTRAL PROVINCE .....	29
5.3 EAST NEW BRITAIN PROVINCE .....	44
5.4 EAST SEPIK PROVINCE.....	54
5.5 EASTERN HIGHLANDS PROVINCE .....	61
5.6 ENGA PROVINCE.....	71
5.7 FLY RIVER PROVINCE .....	84
5.8 GULF PROVINCE .....	100
5.9 HELA PROVINCE .....	109
5.10 JIWAKA PROVINCE .....	110
5.11 MADANG PROVINCE.....	111
5.12 MANUS PROVINCE .....	125

5.13	MILNE BAY PROVINCE.....	136
5.14	MOROBE PROVINCE.....	146
5.15	NEW IRELAND PROVINCE .....	158
5.16	ORO PROVINCE .....	163
5.17	SANDAUN PROVINCE .....	168
5.18	SIMBU PROVINCE .....	175
5.19	SOUTHERN HIGHLANDS PROVINCE .....	183
5.20	WEST NEW BRITAIN PROVINCE.....	192
5.21	WESTERN HIGHLANDS PROVINCE.....	201
6.	LEGAL FRAMEWORKS .....	211
6.1	Organic Law on Provincial Governments and Local-level Governments .....	211
6.2	Provincial Governments and Local-level Governments .....	211
6.3	Hospital Boards .....	211
6.4	Business Arms and Subsidiary Corporations .....	212
6.5	Provincial Authorities .....	212
6.6	Other Audits .....	212
6.7	Dispensation of Audits .....	212
7.	STATUS OF FINANCIAL STATEMENTS .....	214
7.1	Provincial Government .....	214
7.2	Local-level Government.....	215
7.3	Hospital Boards .....	216
7.5	Provincial Authorities .....	220
7.6	Trusts and Funds .....	221



---

## FOREWORD

My Report to the National Parliament is being presented in four parts as follows:

- Part I of my Report deals with the Public Accounts of Papua New Guinea;
- Part II of the Report deals with National Government Departments;
- Part III (this Part) of my 2011 – 2013 Report deals with audits of the Provincial Governments, their Public Bodies and Subsidiary Corporations, Local-level Governments, Hospital Boards and some Trust Funds and District Services Improvement Program. With effect from 1996 an audit opinion on the financial statements of each Provincial Government is being issued in accordance with the requirements of the *Organic Law on Provincial Governments and Local-level Governments 1995*; and
- Finally, Public Bodies and Subsidiaries, National Government-owned Companies and National Government's shareholdings in Other Companies are covered in Part IV of my Report.

### Part III Report

**Readers of this Report should note that this Part III Report covers financial years 2011 – 2013. This Report covers the audit of entities - Provincial Governments, Urban Local-level Governments, Hospitals and Business Arms and Authorities - for the periods ending 31 December for the respective years.**

The audits included reviews of governance arrangements and examinations of internal controls in place at the time the audits were conducted. All audit findings have been reported to entity management for their comments.

This Report provides a summary of significant internal control weaknesses identified, and types of audit opinions expressed in the audits. Major financial and accounting issues which require remedial action to be taken by the Provincial and Local-level Governments, Hospitals and government-owned businesses have been summarised in this part of my Report. These issues have been taken up with the respective Provincial Administrators or Executive Management in our Management Letters.

As required, audited financial statements together with the audit opinions were also provided to the relevant Minister(s) and to the Department of Provincial and Local-level Government Affairs for tabling in the Parliament.

### Making this Report publicly available

This Report will be placed on the AGO website ([www.ago.gov.pg](http://www.ago.gov.pg)) once it has been tabled in the Parliament.

---

# 1. ROLE OF THE AUDITOR-GENERAL AND AUDIT MANDATE

## 1.1 Role of the Auditor-General

Section 214 of the *Constitution of the Independent State of Papua New Guinea (Constitution)* prescribes that the primary functions of the Auditor-General are to inspect, audit and report to the National Parliament on the Public Accounts of Papua New Guinea (PNG) and on the control of and on transactions with or concerning the public moneys and property of PNG. The *Organic Law on Provincial Governments and Local-level Governments (Organic Law)* extends these provisions 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. Presently, the Office operates Regional Audit Offices in Port Moresby (Southern), Kavieng (NGI), Mount Hagen (Highlands), Lae (Momase) and Goroka. The decision to not establish regional offices is due to budgetary limitations confronted by the PNG Auditor-General's Office (AGO). These constraints greatly affect our resources and capability to service audit clients based in the regions.

Section 213 of the *Constitution* provides that in the performance of his constitutional duties, the Auditor-General is not subject to the control or direction of any person or authority. This provision connotes an atmosphere of complete objectivity and impartiality in the discharge of the audit responsibilities.

Other than in relation to his AGO staff and administrative control of the AGO, neither the *Constitution* nor the *Organic Law* provides the Auditor-General any executive or directive powers over the organisations subject to audit. Although the evaluations and investigations performed under the direction of the Auditor-General assist management in detecting weaknesses in controls and procedures, in identifying causes of inefficiencies and uneconomic practices, and in recommending remedial measures, it is inappropriate for the Auditor-General to undertake executive responsibilities in relation to the formulation of accounting systems and policies or the setting of standards for administrative and accounting Purposes. To assume such responsibilities may impede the Auditor-General's independence and objectivity requirements in the performance of the primary audit function.

However, it has been the policy of this Office to engage into discussions with Provincial Governments and Local-level Governments on general matters in relation to accounting systems, internal controls and administrative procedures, and to provide documentation in that regard from resources available in the AGO. In providing such advice or information it is the practice that the responsibility for the executive decision making remains with the Provincial Government or Local-level Government concerned.

## 1.2 Mandate of the Auditor-General

Section 7 of the *Audit Act 1989*(as amended) provides for the Auditor-General to report to the Parliament on the results of audits undertaken. More specifically:

- Whether the financial statements, to which the report relates, are based on proper accounts and records;
- Whether the financial statements are in agreement with the accounts and records and whether they show fairly the financial operations for the period;
- Whether the receipt and payment and investment of moneys and the acquisition and disposal of assets during the year have been in accordance with the *Public Finances (Management) Act 1995(PFMA)*; and

- Such other matters arising out of the financial statements, to which the report relates, as the Auditor-General considers should be reported.

To meet these requirements I perform financial attest and regularity/compliance audits. The main objective of the attest audit is to express an opinion on the fairness of the financial statements, including compliance to disclosure requirements such as the format of the financial statements issued under Finance Instructions. Regularity audits are performed with the main objective of ascertaining that the expenditure had been applied for the purposes for which they had been authorised and, secondly, that the expenditure conforms to the authority which governs it.

In compliance with Part IV of the *Audit Act*, my Office is performing both attest and regularity audits concurrently and is responsible for **436** audits of different entities as shown in the table below:

ENTITY	No
Provincial Governments	21
Local-level Governments	321
Hospital Boards	19
Business Arms	60
Provincial Authorities	12
Trusts and Funds	3
<b>TOTAL</b>	<b>436</b>

Provisions under the *Organic Law* as well as the *Audit Act* require that I furnish before 30 April of the following year, audit reports on the accounts of Provincial Governments and Local-level Governments to the Minister for Provincial Governments and Local-level Government Affairs, the Minister responsible for Finance matters, Provincial and Local-level Governments concerned and the National Economic and Fiscal Commission.

There have been significant delays in my audit reports being presented to the Parliament. My Office has continued to experience considerable difficulties in carrying out timely audits due to a number of factors including:

- Long delays and/or inaccurate presentation and disclosure of information in the financial statements by entities;
- Lack of experience and competency of some Provincial Treasury and accounting personnel in provinces;
- Administrative difficulties where the Provincial Treasurer does not report to Provincial Administrator but the Secretary for Finance;
- Delays in responding to issues raised in Management Letters;
- Absence of proper and adequate accounting and subsidiary records on fixed assets and investments in the Business Arms of Provincial Governments; and
- Significant resource constraints of my Office; especially in regard to the conduct of the audits of Provincial Governments and their entities.

My Office has been adversely affected by the difficulties noted above. Nonetheless, my Office endeavors to improve on the past performances, catch up on the backlog of audits and strives to constantly deliver quality output.

---

## 2. SCOPE OF AUDIT

### 2.1 Introduction

In performance of the statutory audit responsibilities, the resources of this Office were directed primarily to the evaluation of internal controls, together with such other examinations as were considered necessary to examine the performance of financial operations with a view to assessing the reliability and integrity of financial data and to determine the extent of compliance with applicable laws, regulations and directives. The audit procedures applied were intended to reveal systemic weaknesses which would result in losses or errors, frauds and/or mismanagement of public funds.

The examination on a sample basis included review of corporate governance, the work of the internal audit, appropriations management, revenue and payments, human resource management processes, cash management, asset management and trust account management.

All audits were planned and performed in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants to obtain reasonable assurance whether the financial statements are free of material misstatement. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The nature of an audit is influenced by factors such as the use of professional judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. The audit is not required to search specifically for fraud and therefore the audit cannot be relied upon to disclose all such matters. However, all audits were planned and executed so that I can have a reasonable expectation of detecting material misstatements resulting from irregularities, including fraud.

Compliance with relevant legislation is of paramount importance in safeguarding the State's assets. My audits included reviews and tests to ascertain whether key provisions of the *PFMA* and various Finance Instructions have been adhered to.

The audit covers provincial governments, local-level governments, hospital boards, business arms and subsidiary corporations, provincial authorities and other audits as directed by me.

### 2.2 Appointment of an Agent Auditor

The provisions of the *Audit Act* allow the Auditor-General to appoint a Registered Company Auditor as agent to assist in discharging audit responsibilities as and when considered necessary. Contrary to these requirements, some Provincial Governments and the management of their business arms have been engaging private auditing firms without my knowledge to carry out the audits of their businesses. Section 8(5A) of the *Audit Act* states clearly that “A body which is liable to audit by the Auditor-General shall not appoint a Registered Company Auditor to carry out the functions and powers of the Auditor-General under the Constitution and this Act.”

### 2.3 Dispensation of Audits

As mentioned in previous reports, this Office has continued to experience considerable difficulties in carrying out timely audits. There were long delays or incomplete submission of financial statements, due to high turnover of Provincial Government or Hospitals' accounting staff and/or lack of experience and competency of accounting staff. Of particular concern was non-preparation of financial statements by a large number of Local-level Governments. These problems were further aggravated by limited resources affecting my Office.

Due to the delays in the conduct of the audits, I have decided to apply the provisions of the *Audit Act* that allow me to dispense the audits. Details of audits dispensed are presented on Section 6.7 of this report.

### **3. RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS**

#### **3.1 Audit Opinion**

Financial statement audits are an independent examination of the financial accounting and reporting of Provincial Governments, Local-level Governments, Hospitals, Business Arms of Government and other entities. The results of the examination are presented in an audit report, which expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein, fairly reflect the results of each entity's operation and its financial position. The disclosures and management representations made in the financial statements by the entity are assessed against relevant Finance Instructions and accounting standards, and legislative and other reporting requirements.

It is generally accepted that a good indicator of the effectiveness of financial management processes is the timely finalisation of the financial statements, accompanied by an unqualified audit opinion.

In giving my opinion on the financial statements, it is important to understand that I am not guaranteeing the absolute accuracy of the statements. Every year, the entities enter into thousands of transactions involving many millions of kina. Errors occur, and some may go undetected. When I audit the entity's statements, I seek reasonable assurance that they do not contain errors, the total effect of which would be material enough to mislead the reader.

In determining my audit of the entity's financial statements, I consider two main factors that determine the nature and extent of the work required. The first of these is a Kina figure called "materiality". This represents a threshold; if total errors fall below this threshold, the financial statements present information fairly; if they exceed this threshold and are not corrected, I refer to them as qualifications in my opinion. The second factor is called "audit assurance". This represents how certain I want to be that my audit will reveal total errors that equal or exceed the materiality threshold.

At the conclusion of the audit, I determine whether the effect of undiscovered errors in the financial statements would mislead those who use the statements. If the effect would be to mislead, I include a qualification in my audit opinion.

An inability to form an opinion - commonly referred to as a Disclaimer - is expressed when a scope limitation exists and sufficient appropriate audit evidence to resolve the uncertainty resulting from the limitation cannot reasonably be obtained; and the possible effects of the adjustments that might have been required, had the uncertainty been resolved, are of such a magnitude, or so pervasive that the auditor is unable to express an opinion on the financial report taken as a whole.

With the exception of several audit reports issued on Public Hospitals and Business Arms of Government, the audit opinions issued in recent years on the financial statements of all the Provincial Governments were disclaimed. The reasons and the problems encountered are detailed in the paragraphs below.

#### **3.2 Financial Statements of Provincial and Local-level Governments**

I have concluded and reported that I am unable to form an opinion on each of the Provincial and Local-level Government's financial statements. Whilst in the majority of cases the financial statements had been prepared in the format required by the Finance Instructions issued under the *PFMA*, I concluded that material errors, uncertainties and lack of adequate records resulted in the overall financial position and results of operations that were not reliable. As a result, I continue to report that I am unable to form an opinion.

A major factor that has contributed to such ineffective financial management processes is top management (that is, Provincial and District Administrators) failure to promote measures and responsibilities for transparent and compliant spending of budget allocations. However, whilst top management is tasked with effective management, control and accounting, the Parliament has the right to demand answers on accountability and governance issues.

Other factors affecting the poor level of financial management include:

- Lack of experience and the competency of Provincial Treasury and accounting personnel in the provinces;
- Considerable abuse and diversion of government money that has gone unpunished for a long period of time;
- Absence of regular monitoring and review by the Department of Finance on the work of the Provincial/District Treasury, together with timely corrective action;
- Lack of coordination and communication, for example Provincial/District Treasurers not advising the Administrators on matters relating to the financial status of the Province;
- A reduced incentive for efficient management of funding due to the Provincial/District Treasury being in control of processing but the Administrator being responsible for the outcome; and

During this audit cycle my Office finalised and issued 42 audit reports to the Provincial Governments and 10 to Urban Local-level Governments. Details are presented in Section 7.1 Table 1 of Section 7.2 and table 3 respectively.

There are currently 321 Local-level Governments around the country (except the Local-Level Governments of the Autonomous Region of Bougainville) as shown in Table 2 of Section 7.2. Of these, there are 290 Rural Local-level Governments and 31 Urban Local-level Governments in existence.

I was not able to carry out any audits of the rural Local-level Governments accounts and records as required by the *Organic Law* as reported in my previous years reports, because of the limited financial and human resources of my Office. During the audits of the Provincial Governments accounts, I have satisfied myself that the revenue and expenditure are largely grants and salaries and wages and that they do not exceed 5% of the total funding for Provinces. No expenditures were spent on major works and projects by the Rural Local-level Governments.

I have been in the position to carry out the audits of some of the major Urban Local-level Governments as they are located in the main headquarters of the Provinces. For some Urban Local-level Governments audit of financial statements were conducted for two to three years because of backlog of audit arrears. The results of controls testing are reported under Chapter 5 of this report under the respective Provincial Governments headings.

The financial statements of both Provincial and Urban Local-level Government comprise of a number of Statements and Appendices. Statements 'A', 'B', 'C', 'E', 'J' and 'K' are maintained by the entities' accounting system. Statements 'D', 'F', 'G', 'H' and 'I' are memorandum statements that are drawn from the accounting system, but are nevertheless financial statements in their own right that convey financial information to users and the public.

There are certain accounts, records and registers and procedures that also relate to the financial statements through Appendices from 1 to 6.



### 3.2.1 Statement 'A' - Government's Account Balances

This is a statement of cash position for the Provincial or Local-level Government at year-end which should be supported by bank reconciliations. Statement 'A' is intended to show the Public Account comprising the Revenue Fund and the Trust Fund as represented by the year-end cashbook balances and other cash resources available to the Government.

Common problems associated with the audit of this Statement were:

- Bank confirmations for the bank accounts and Interest Bearing Deposit (IBD) Certificates were usually not provided to confirm the closing bank and investment balances;
- The cash position was also incomplete as it did not include the unspent funds transferred from the Provincial Treasury operating account to Provincial Government operating account, and were treated as expenditure as at year-end and balance of short-term investments held by the Government;
- Opening balances could not be confirmed as correct as these balances did not agree to the corresponding closing balances from the previous year; and
- There were adjustments made to opening or closing balances without any supporting documents provided.

Under these circumstances, I was unable to express an opinion on the accuracy of Statement 'A' and consequently on the financial position of the Governments as at year-end.

### 3.2.2 Statement 'B' - Summary of Receipts and Payments

This Statement basically is the Operating Account and is similar to a Profit and Loss account as in commercial practice. Statement 'B' is intended to show the summary of receipts actually received in Statement 'J' and expenditure actually incurred in Statement 'K'.

Tracing figures from Statements 'J' and 'K' to this Statement in almost all audits showed material difference relating to either expenses or revenue. Another frequent error was an omission of revenue and expenditure related to Staffing Grant and Teacher Salaries and Allowances. This occurred as a result of these salaries and allowances being controlled and processed by the Department of Finance. Nevertheless, revenue and expenses arising from Staffing Grant and Teacher Salaries and Allowances should have been accounted for by the Provincial Government's system.

As a result of these omissions, I have qualified this Statement due to the net surplus or loss disclosed being materially inaccurate and unreliable.

### 3.2.3 Statement 'C' - Receipts and Payments of Trust Funds

This Statement shows trust funds revenues actually received and expenditure actually paid. The most common error that frequently resulted in material overstatement was the inclusion of the National Government Agencies' trust accounts. These trust accounts however, did not belong to the Provincial Government and, as such, should have been excluded from this Statement. Consequently, the closing balances shown in the Statement could not be relied upon. In addition, breaches of the *PFMA* were likely to have occurred due to payments made from the trust accounts or revenue collected not being in accordance with the Trust Instruments.

### 3.2.4 Statement 'D' - Sources and Application of Funds

This is a summary cash flow statement showing sources of revenue and where these funds were applied. The Statement also shows reconciliation of changes in bank balances to the net movement of the cash flow statement. In all instances this Statement could not be confirmed as correct and complete due to audit observations regarding materially incorrect Statements 'B', 'J' and 'K'.

### **3.2.5 Statement 'E'- Financial Investments**

This Statement details term deposits, Treasury Notes, debentures and similar instruments held by the Government. Provincial and Local-level Governments did not maintain investment registers to record details of investments. There were instances where revenue was recorded arising from either interest or disposal of these investments, however, no records were made available to auditors. Consequently, I could not ensure accuracy of this Statement.

### **3.2.6 Statement 'F'- Statement of Direct Investments, Capital Contributions, Equity, Options and Rights**

The purpose of this Statement is to show the Government's investments and ownership in companies and statutory authorities that are long-term investments. All assets including investments acquired are charged to expenditure in the year the payment is made. However, investments are required to be recorded in the accounting system.

Not maintaining investment registers or other records (i.e. share certificates) was a widespread problem. According to previous year's financial statements or other relevant information obtained during the audit, the majority of Provincial Governments held investments in the form of shareholdings and/or made capital contributions in a number of companies. The non-disclosure of the Provincial Governments' investments in this Statement as well as the income derived from such investments was misleading to stakeholders and users of the statements.

This issue is of a particular concern to me. Firstly, millions of Kina could be lost due to the lack of proper feasibility studies into the financial background and viability of companies in which the Government invests. The Provincial Government should ensure that the viability and the financial and statutory requirements relating to establishment of companies are properly reviewed and analysed prior to investing large sums of public monies in such companies.

In addition, some of these companies are being audited through private arrangements and not by the Government auditors. In my reports, I have advised the Provincial Governments to liaise with the AGO on assessing whether an audit of those financial statements should be undertaken by this Office. This assessment would be based on whether the Provincial Government is a major shareholder and has a controlling interest in the company.

My other concern is that due to inadequate maintenance of records, these investments could be lost or misappropriated resulting in significant loss of public funds.

### **3.2.7 Statement 'G'- Statement of Lending**

This is a schedule of all funds lent by the Government, including on-lent loans funds. In absence of proper records or registers maintained by the Provincial Governments in relation to these matters, I was unable to confirm the accuracy of this Statement.

### **3.2.8 Statement 'H'- Statement of Borrowings**

This is a schedule of all funds borrowed or loaned. Liabilities or financial obligations to outside organisations outstanding at the end of the financial year are not brought into account;

however, they are required to be recorded in this Statement. In the absence of proper records or registers maintained by the Provincial Governments in relation to these matters, I was unable to confirm the accuracy of this Statement.

### **3.2.9 Statement 'I'- Statement of Loans Guaranteed by Government**

This Statement shows the value of commitment of the Government to lenders of monies for loan recovery in the event of re-payment defaulted by borrowers. In the absence of proper records or registers maintained by the Provincial Governments in relation to these matters, I was unable to confirm the accuracy of this Statement.

### **3.2.10 Statement 'J'- Receipts Classified under Heads of Revenue Estimates**

In accordance with the budget appropriation classification, this schedule discloses revenue received. The total from this Statement has to reconcile with Statement 'B' as revenue and receipts. Revenue consists of all receipts being external (appropriations) or internally generated such as collection of fees and fines. In the majority of audits there were significant and unexplained discrepancies between the total of this Statement and Statement 'B'.

The omission of the actual receipts pertaining to estimated Public Servants and Teaching Services Commission Salaries and Allowances, which are retained and administered by the Department of Finance on behalf of the Provincial Government, were usually not obtained and posted to the revenue ledgers.

### **3.2.11 Statement 'K'- Expenditure Classified under Heads of Appropriation**

In accordance with the budget appropriation classification, this schedule discloses expenditure actually paid. The total from this Statement has to reconcile with Statement 'B'. Expenditure consists of all charges for goods and services received and paid for before the end of the calendar year and refunds of revenue collected in previous years.

A common error was an omission of the actual expenditure relating to the Teaching Services Commission Salaries and Allowances. Furthermore, reconciling items, such as bank charges, fees and other items relating to expenditure which were not adjusted in the cash book and posted to the respective expenditure ledgers were also not shown in this Statement.

### **3.2.12 Appendix 1**

Appendix 1 reports outstanding commitments as at year end. Provincial and Local-level Government's generally failed to report on commitments.

### **3.2.13 Appendix 2**

Appendix 2 reports on the outstanding debtors at year end. The majority of Governments did not report any debtors. In addition, there were no proper debtors' ledger or other records such as invoices or debit notes maintained which could provide details of debtors at the year end. In cases where the Government reported outstanding debtors, this balance included outstanding debtors from the previous years where no action appeared to have been taken to recover the debts.

### **3.2.14 Appendix 3**

Appendix 3 shows the value of inventories at year end. In absence of various registers and related records, I was unable to verify the accuracy of this Appendix.

### 3.2.15 Appendix 4

Appendix 4 is intended to give details of assets of the Provincial and Local-level Government. The majority of Provincial Governments did not report any assets, despite assets being purchased during the year. Those entities that reported some assets lacked necessary details in order for me to verify the existence, condition, location, custodianship and value of those assets.

### 3.2.16 Appendix 5

Losses and deficiencies of public monies and property are reported to the Inspection Branch of the Department of Treasury and are listed in this Appendix. In absence of losses and deficiencies register and related records, I was unable to verify the accuracy of this Appendix.

### 3.2.17 Appendix 6

Appendix 6 reports on unacquitted advances at year end. The widespread mismanagement and abuse of this entitlement is of concern to me. Provincial and Local-level Government failed to completely and accurately account for these advances. They were outstanding for several years with no action taken to recover the advances. My Officers observed that in some Provincial Government, revenue collections were illegally loaned to officers. There was also no evidence of management taking action to improve on monitoring the management of advances.

### 3.2.18 Other Issues

#### Submission of Financial Statements

It is mandatory for the Provincial Government and the Local-level Government to prepare annual financial statements and submit them to the Auditor-General for audit. The Auditor-General then, after the completion of the audit, is required to report by 30 April in the year following to the Minister for Finance, the Minister responsible for Provincial and Local-level Government matters, the National Economic and Fiscal Commission and the Provincial Governor.

At the time of this report there were three 2011, four 2012 and fourteen 2013 financial statements yet to be received for audit. Summary is given in Table 1 of Section 7.1.

#### Presentation of Financial Statements

In addition to the annual financial statements, comprising Statements from 'A' to 'K' and six Appendices, the accounts are accompanied by the Chief Accountable Officer's Statement and the Council Executive Officer's Statement on the financial operation of the Government for the fiscal year ended.

The financial statements of a number of Provincial Governments did not contain the Provincial Administrator's Statement for the year ended and consequently were not presented in the format required by the Finance Instructions. This statement is a written representation by the management in which management acknowledges its responsibility for the fair presentation of the financial statements, and it also represents a means of approving the financial statements. Since the management had not provided the necessary representations, this constituted a scope limitation and affected every statement presented by the management.

Another common error was a presentation error that resulted in material misstatement. In a number of financial statements presented by the Provincial Governments, the amounts in

Statements from 'A' to 'K' were incorrectly presented in amounts of 'thousands' instead of the original amounts.

### 3.3 Financial Statements of Hospital Boards

During the last audit cycle I have issued 18 audit reports to Hospital Boards, Table 4 of Section 7.3 details the status of the audit reports as at 31 December 2013.

For some Hospital Boards although financial statements were not submitted for audit, my Office undertook controls testing. Results of the controls testing are reported under Chapter 5 of this report under the respective Provincial Governments headings.

I am pleased to report that a number of Hospitals received qualified audit opinions compare to past years. There were notable improvements in the area of corporate governance, budgetary controls and payments of wages and salaries compared to previous period. Hospital management is significantly improving each year because of implementation of audit recommendations.

The majority of the audit reports that I have issued in this audit cycle contained Disclaimer of Opinions. This was a result of significant control breakdowns, absence of financial records and financial statements qualifications. As discussed under paragraph 1.2, one of the qualifications was a result of the format of the financial statements not being approved by the Minister for Finance.

In general, all public hospitals are experiencing problems in preparing and submitting the financial statements for audit within the legislative requirement. Namely, Section 63 of the *PFMA* requires a public body (hospital) to submit and the Auditor-General to finalise the audit of prior year financial statements by 30 June each year. The same Act states that where a public body does not meet this deadline, the Minister may withhold half of the grants appropriated to that body for the following fiscal year. Although the public hospitals continuously fail to meet the requirement for timely reporting, the sanctions of this Section of the Act have never been imposed.

Hospitals are required to prepare their financial statements in accordance with the *Finance Instructions 2/2004 – Financial Statement Format for Non-Trading Public Bodies*. The accounts are prepared under the cash basis of accounting with the financial statements consisting of: Statement of Revenue and Expenditure, Statement of Changes in Net Cash Asset, Schedule of Capital Assets and Liabilities and Accounting Policies.

Common problems with the hospitals' financial statements were:

- The records of medical supplies, accounts receivables and payables, capital commitments and contingent liabilities, were either non-existent or inadequate;
- Accounting records or asset registers were not maintained to record the details of the assets. Consequently, I was not able to verify the completeness, existence, accuracy and valuation of the fixed assets at year end;
- Opening balances of cash at bank could not be confirmed as correct as these balances did not agree to the corresponding closing balances from the previous year;
- No advance registers were maintained. Travel advances and subsistence were frequently not acquitted. Therefore, this constituted a limitation of scope as I could not ascertain the value of the advances and also whether advances were actually utilised for the intended purposes;
- In several cases, there was no appointment of financial delegates to approve expenditure;

- In several Hospitals the Board members were not duly appointed and sworn in, in accordance with Section 6 of the *Public Hospital Act 1994*;
- Payment of gratuities in the absence of employment contracts; and
- Overtime payments to employees with approval from the Chief Executive Officer or appropriate authorities.

### 3.4 Financial Statements of Business Arms and Subsidiary Corporations

All Provincial Governments had established business arms and have direct or indirect investments in subsidiary corporations and companies. At the time of writing this Report in July 2014 there were approximately 60 known entities as provided in Table 5 of Section 7.4 and Table 6. However, as reported in my previous reports and the full extent of the Provincial Governments' investments therein, or the exact details of these business arms and their subsidiary corporations and companies, could not be fully established due to the lack of adequate information forthcoming from the Provincial Governments or the failure to maintain proper investment records and registers. My Office was unable to determine whether they were still in operation, defunct, or liquidated. For many years I have been pursuing this information with the respective Provincial Governments, their business arms and relevant authorities.

As reported in my previous reports, the entities have failed to submit their financial statements on a timely basis. Financial statements and audit fees have remained outstanding for well over many years in some cases, as shown in Section 7.4 Table 5. Consequently, audit of such financial statements could not be conducted despite my repeated requests.

### 3.5 Financial Statements of Provincial Authorities

Provincial Authorities are created by an Act of Parliament. The purpose of establishing these authorities is to develop infrastructure and to stimulate business activity in the respective provinces. Some of these authorities are directly involved in commercial activities as well.

The audits of the Provincial Authorities are undertaken when the financial statements are received and when audit fees are remitted to my Office.

As at the time of writing this Report the status of audits relating to the Provincial Authorities are summarised in Section 7.5 Table 7 and Table 8.

### 3.6 The Role of the Treasury Offices

Provincial and Local-level Governments are independent legal entities with authority for managing their financial affairs. In recognising these fiscal responsibilities, Sections 102 and 103 of the *Organic Laws* require Provincial and Local-level Governments (P&LLG) to keep their accounting records proper and have sound internal control systems. The P&LLG are required to manage their financial affairs in accordance with provisions of the *PFMA*.

The Department responsible for financial management (i.e. the Department of Finance) has been tasked to establish, develop and commission Provincial/District Treasury Offices to provide accounting, financial management and support services to assist P&LLGs in providing community services. The administrative and accounting procedures have been specifically designed through the Finance Management Manual to provide these financial support services.

A Provincial/District Treasury is an accounting organisation established under Section 112 of the *Organic Law* located at the district/province area. The District/Provincial Treasurers' functions are to ensure that all financial transactions undertaken by the P&LLG out of public

moneys are managed properly. These moneys are to be released strictly in accordance with law and contribute to the effective delivery of services to the community. District Treasurers from time to time may also oversight functions such as banking, postal, and other services. The Secretary of Finance is tasked to oversee the affairs of these Treasury Offices.

The AGO has the responsibility to examine the financial statements and the accounts and records of the P&LLGs. For the last several years the AGO has reported and concluded that material errors, uncertainties and lack of adequate records existed in Provincial/District Treasuries that resulted in the overall financial position and results of operations that were not reliable. As a result, the AGO continued to report inability to form an opinion on the P&LLG's financial statements. The situation has not improved in 2011 to 2013 period.

The Provincial/District Treasury Offices did not adequately address their responsibilities through:

- Providing or ensuring experienced and competent Treasury Office personnel are employed;
- Providing adequate risk assessment, planning, manpower or funding to undertake internal audits by the Internal Audit Units within the Provincial Government; and
- A lack of coordination and communication between the Treasury Office personnel and P&LLGs on financial matters.

It is crucial that the Provincial/District Treasury Offices provide necessary support and ensure proper accountability and prudent financial management practices are followed when maintaining the accounts and records of the P&LLGs.

The Department of Finance and the Department of Treasury have to act immediately and commence proper monitoring and support of their Offices so that P&LLG finances and records are properly maintained.

### **3.7 Other Audits**

#### **Trusts and Funds**

My responsibility also includes the audit of Special Purpose Funds and Trusts established by Provincial Governments. The audit of these Funds and Trusts is organised in a similar manner as the audit of business arms. Previously, I have reported that management of these funds has failed to furnish financial statements on a timely basis and as such, I was unable to carry out the respective audits on a timely basis. Management of these Funds and Trusts has also not communicated to my Office to confirm the current status of these organisations. Details are presented in Section 7.6 Table 9 and Table 10.

### **3.8 Audit Fees**

The Government of PNG does not provide funding for audits of business arms of Provincial and Local-level Governments, authorities and trusts. In order to undertake audits on these entities I have to recover these costs through raising audit fees. These fees are based on estimated minimal audit work to enable me to form an opinion on their financial statements. Consequently, non-payment of audit fees by these entities results in audit work not being undertaken either by my Office or the contractor engaged by me. Based on my experience, a significant number of business entities take advantage of the situation and remain unaudited for considerable lengths of time. During that time, funds invested by the Provincial or Local-level Governments are depleted either due to the inability to effectively manage the business or due to misappropriation. As an end result, there is almost no return on the Government's investments and the misappropriation is never identified and reported to the Parliament and the public.

---

## 4. CONTROL ENVIRONMENT

### 4.1 Introduction

The control environment includes the governance and management functions and sets out the foundation for effective control activities and monitoring. Control activities are policies and procedures that help ensure management directives are carried out. Control activities, whether within computerised or manual systems, have various objectives and are applied at various organisational and functional levels.

Monitoring of controls is a process to assess the quality of internal control's performance over time. Monitoring is done to ensure that controls are designed appropriately and continue to operate effectively. Management monitoring of controls includes considering whether they are operating as intended and whether they are modified as appropriate for changes in conditions.

This interim phase of my audit program was designed to assess the reliance that can be placed on control structures to produce complete, accurate and valid information for financial reporting purposes by the Provincial and Local-level Governments and Hospital Boards.

In performing the audits, my officers focused primarily on evaluation of internal controls, together with such examinations considered necessary to assess the performance of financial operations of the entity, with a view to assessing the reliability and integrity of financial data.

The audits are not required to search specifically for fraud and therefore the audits cannot be relied upon to disclose all such matters. However, the audits were planned and executed so that I can have a reasonable expectation of detecting material misstatements resulting from irregularities, including fraud.

### 4.2 Responsibilities of Management

The primary responsibility for the prevention and detection of fraud rests with those charged with governance. For example, the Provincial Administrator is the Chief Executive Officer and the Administrative Head at the Provincial Government level; the District Administrator at the Local-level Government and the Chief Executive at the Hospital or Business Arm of Government. The Administrator/Chief Executive Officer is responsible for the preparation and presentation of the financial statements and the information contained therein in accordance with the Finance Instructions issued under Section 117 of the *PFMA* and the *Organic Law*.

The Administrator/Chief Executive Officer is responsible for the efficient management of administrative services and is also responsible for keeping proper accounting records, for safeguarding the assets of the Provincial Government/Hospital or Business Arms of Government and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### 4.3 Responsibility of the Auditor-General

My audits are performed in accordance with the International Standards on Auditing as promulgated by the International Federation of Accountants and are designed to provide reasonable assurance that a financial report taken as a whole is free from material misstatement. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial report taken as a whole. Reasonable assurance relates to the whole audit process.



Concerns about quality of financial reporting, in light of international and national corporate collapses in recent years, have led to more stringent auditing requirements and added to the importance of evidence of compliance with the standards. In turn, these additional requirements have had a direct impact on the level of my resources devoted to audits undertaken in accordance with International Standards on Auditing.

#### **4.4 Details of Control Issues**

A broad range of internal control issues were raised as part of the interim audit phase. In general, the results of the testing of controls at different entities indicated that overall, there were significant weaknesses in the control environment. Control activities, such as delegations, authorisations, reconciliations, and data processing were not sufficiently robust to prevent, detect or correct error or fraud.

As part of the interim audits, the AGO reviewed processes and their related control activities in the following areas:

- Corporate governance;
- The work of the internal audit;
- Appropriation and budget management;
- Revenue and receivables;
- Purchases and payments; human resource management processes;
- Cash management;
- Asset management; and
- Trust account management.

##### **4.4.1 Corporate Governance**

During the interim audits the AGO assessed whether an agency's control environment comprises measures that contribute positively to sound corporate governance. These measures should support key elements of a control environment designed to provide a sound basis for effective financial management.

The results of the audits identified:

- Lack of Corporate Plans and operational plans. This was particularly evident in the audit of the Hospital Boards. This could lead to inability to set targets and performance indicators to monitor achievements and to take corrective action. It could also lead to inefficient and ineffective service delivery in that stakeholders and communities needs are not met;
- The requirement for a minimum of four meetings of a Provincial Assembly during the year was not met. In addition, minutes were either not taken or on occasions not certified by the Chairman. These instances increase the risk that important decisions made may be nullified and may not hold legal basis in the event if challenged in court; and
- Audit Committees were not established in all Provincial Governments. Audit Committees have an important role to play in reviewing and advising on important components of corporate governance.

##### **4.4.2 Internal Audit**

Internal audit is a key source of independent and objective assurance advice on an agency's internal control and risk framework. Depending on the role and mandate of an agency's

internal audit function, it can play an important role in assessing the adequacy of processes that underpin an agency's financial statements.

From the AGO perspective, internal audit is an important component of the system of internal controls. Because of similarities in the nature and scope of activities performed by internal and external auditors, especially in the public sector, there are significant efficiencies to be achieved if external auditors are able to rely on the work of internal auditors. An effective internal audit program should facilitate external audit to place greater reliance on the work of internal audit, thereby making better use of overall audit resources.

In that respect, it was disappointing to find that the majority of Provincial Government's internal audit did not have Audit Charter and Audit Plan to set out the mandate and scope of audit coverage. In the majority of cases the Provincial Government did not provide sufficient funds for internal audit to carry out its duties during the year.

#### 4.4.3 Appropriation and Budget Management

Appropriations represent the primary source of revenue for most Provincial and Local-level Governments and Hospital Boards. One of the key audit tests was to ensure spending was within the appropriation limit so that expenditure for each Provincial Government accurately reflects anticipated final budget outcomes in the National budget system.

Our audits disclosed that controls in agencies relating to the management of appropriations were generally inadequate. Weaknesses noted related to:

- Incorrectly charged expenditures to Vote items for which funds were not appropriated;
- Erroneously increasing the appropriation without revised budget being approved;
- The Appropriation Acts were sometimes not signed and certified. The non-certification of the Appropriation Acts indicates gross negligence of duties by the Chairman and the Clerk of the Provincial Assembly; and
- The Provincial Governments on several occasions did not exercise compliance to financial instructions with regard to management and utilisation of unspent funds at the year end. Unspent funds were on occasions transferred to Trust Accounts. The unspent funds from the operating account are required to be paid out and receipted into the Government's operating account for budget re-allocation in the following year.

The above mentioned practices expose the Provincial Governments to the risk that the unspent funds may be utilised on expenditure not provided for in the *Appropriation Act*. In addition, money could be spent in excess of the appropriation limit, which will result in breaches of the *Appropriation Act*, the *PFMA* and the *Constitution*.

#### 4.4.4 Revenue and Receivables

In addition to the appropriation revenue, the Provincial Government collects internal revenue from other sources, i.e. motor vehicle registration and renewal, issue of driver's licenses and renewal, and liquor licensing. Hospitals collect revenue through patient fees. The AGO found that the relevant Registers were either non-existent or were not updated on a regular basis. As a result, total fees collected by either the Provincial Governments or the Hospitals could not be ascertained.

In all Provincial Governments and according to the revenue ledgers, the Government has recorded significant shortfall in revenues in respect of the majority of internal revenue sources. This indicates the inability of the Provincial Governments to carry out sound and prudent revenue forecasting and also the lack of co-ordination and co-operation being exercised by the Revenue Unit and other line economic divisions of the Provincial

Government to effectively plan and direct their efforts to ensure that all internal revenues estimated for the year are collected and accounted for.

In a similar manner, General Hospitals collect income from patient fees and gifts and donations. Over the last several years', management of hospitals have not ensured that revenues were collected promptly and that the rates of fees, charges, and imposts were reviewed annually. In addition, there was no compliance to procedures pertaining to compiling of collector statements, thereby undermining the integrity of the revenue collections.

Other common problems across all entities were:

- Daily collections were frequently not banked nor receiver statements raised and posted to the revenue ledger;
- Delays in banking of collections were frequent and on occasions up to a maximum of 33 days;
- There was no segregation of duties maintained between receipting and payment processing; and
- There was no register of debtors maintained.

#### 4.4.5 Purchases and Payments

Strong controls over purchases and payments will help ensure that the quality of goods or services is acceptable and that goods are actually received in good order. Controls including reconciliation processes, segregation of duties, appropriate delegations and access controls provide an effective means of ensuring that payments are valid and accurately recorded, and that funds are not mismanaged or subject to material fraud.

It was noted that in most cases there was an extremely high rate of non-compliance with procurement and payment procedures. The instrument of appointment of Provincial Supply and Tenders Board, minutes of Board's meetings and the Register of Tenders and Quotations were generally not made available for audit review. It was also noted that there was a significant use of legal firms and consultants that was not supported by proper documentation.

Other significant issues were:

- Payment vouchers were not examined for completeness and accuracy of claims prior to processing the payments;
- Payment vouchers were not certified to confirm the legitimacy of claims prior to processing the payments;
- In some cases delegates had approved expenditures in excess of their delegated financial limits;
- Written quotations were not obtained to ensure value for money; and
- Reimbursements were made to individuals and organisations for payments made on behalf of the Provincial Government using personal money.

The significant lack of controls over procurement and payments expose the State to the risk of:

- Unauthorised purchases;
- Over-commitment of funds without recourse to cash flows;
- Uneconomical purchasing;
- Fraud (kickbacks/secret commissions);
- Staff use purchase orders to purchase personal items;
- Purchasing of inferior or expensive goods and services; and

- Consultancies being engaged at no benefit to the Government.

#### **4.4.6 Human Resource Management**

Human resource management processes encompass the day to day management and administration of employee entitlements and payroll functions. The salaries and wages costs within the Provincial and Local-level Governments and Public Hospitals represent one of the single largest items of expenditure in their accounts. This represents a significant area of risk and management should ensure that these costs are carefully controlled and monitored and that those responsible for payroll functions have the necessary skills and knowledge to effectively execute their functions.

Given the significance of employee expenses, and the fact that by their nature some employee entitlement calculations can be inherently prone to human error, entities need to have adequate control mechanisms in place to capture and process employee data and related payments. In addition, key controls should include appropriate approval and review processes.

The AGO observed a number of instances where salaries files of Provincial Government members and staff requested for audit were not made available. Consequently, the AGO was unable to verify any deficiencies in the salaries and allowances paid to Provincial Government members and staff.

Common problem identified with Public Hospitals was that acting appointees on contract positions were incorrectly claiming gratuity payments. Also, recreational leave fare payments to officers and their families had no birth and student concession certificates attached for their legal dependents for legitimacy and validity. Instances were also noted of leave tickets being refunded through a travel agent after withholding commission plus processing fee.

#### **4.4.7 Cash Management**

The cash management process covers the management of bank accounts. Each entity is required to ensure it has the necessary liquidity to meet its commitments as they fall due and to maintain proper controls over its official bank accounts. In this environment, it is essential that adequate management processes are in place to track fund transfers and to safeguard assets.

Bank reconciliation represents an independent verification by management to ensure that cashbook transactions reconcile to the bank statements. Performing bank reconciliations periodically (monthly) ensures that receipts and payments are accurately processed, cashbook or bank errors are identified, and misappropriation or fraud is detected timely. Bank account reconciliations are a key control in assisting management to identify anomalies or errors in the payment and receipting processes and assist the management to discharge its accountability requirements. They need to be prepared within a reasonable period to ensure anomalies or errors have been identified and appropriate action undertaken.

Weaknesses identified related to timely completion of bank reconciliations, including the clearance of reconciling items. In almost all audits of the Provincial Governments, the bank reconciliations were either not done or were not done in a timely manner.

#### **4.4.8 Assets Management**

Provincial Governments, Local-level Governments and Hospitals pay significant amounts of money on asset purchases, especially on computers and accessories. It is the responsibility of the Departmental Head to account for and safeguard the State's assets.

The maintenance of a reliable asset register that includes adequate information about assets acquired and disposed of, depreciation and asset reconciliations with periodical stock-takes is a prerequisite to effective asset management. Regular reconciliations of the asset register with the entity's financial systems will help ensure the timely and accurate recognition of asset items and facilitate their physical control.

From the audits of the Provincial Government, Local-level Governments and Hospitals it was evident that asset registers were either non-existent or they were not maintained properly. This exposes the entity to the risk that assets may not be utilised effectively, may not be protected from physical deterioration or maintained properly. Further, periodic stock-takes were not being conducted to determine the accuracy of assets on hand. This increases the risk of loss, theft or fraud.

#### 4.4.9 Trust Accounts Management

Provincial Governments are responsible for maintenance of a number of trust accounts. To ensure proper accountability of trust money, Part 3 of the *PFMA* requires maintenance of adequate records, that collection of receipts and payments from trust accounts is in accordance with the Trust Instruments and for submission of periodic reports to Department of Finance including a requirement to submit monthly bank reconciliations.

Consistent with the findings from previous years, the Provincial Government could not provide formal Trust Instruments, and the AGO was unable to ensure that the collection of receipts and the payments of trust money were valid. On a number of occasions the cashbook revealed an overdrawn balance.

### 4.5 Conclusion

Properly functioning internal controls are fundamental for entities in meeting their respective strategic, operational and financial responsibilities. The results of the current testing of controls continue to reveal weaknesses of such magnitude that material error could have been processed or misappropriation and fraud could have occurred.

It is disappointing to report that there has been no change to the situation reported in previous years. Almost all the Provincial Governments, Urban Local-level Governments and Hospitals have been issued with Disclaimer Audit Opinions and some hospitals with qualified opinions signifying that there is still a long way to go in terms of improving their internal control issues and financial management issues. With a lot of Government interventions such as Government Advisors in state agencies and the establishment of Audit Committees, audit issues reported should have been captured and appropriate remedial action taken to address them. In this connection, this Office urges the Provincial Governments, Urban Local-level Governments and hospitals to strictly follow our recommendations and implement them in subsequent years.

The Disclaimer Audit Opinion means there is a lack of reliable audit evidence (non-existent or inadequate books and records) and/or reluctance by entity management to provide representation that financial accounts and records have been kept in accordance with acceptable financial management and accounting policies and procedures. A Disclaimer Audit Opinion is the worst audit report that an entity can receive.

A commitment to strong financial management and accountability is particularly challenging in the PNG context but it is also essential to drive continual improvement in governance in public sector entities and thus help ensure delivery of essential services to the citizens of this country. Having sound financial management and reporting in the public sector is an important contributor in achieving greater transparency, accountability, fiscal responsibility and, hence, improved governance.

However, without robust, transparent, and accountable arrangements for financial reporting and financial management, it is not possible to reliably assess whether decision making by entities has been in the public interest. Fundamentally, good governance arrangements are essential for an agency to be able to demonstrate to stakeholders that it can be trusted to do what it is established to do. Such arrangements assist stakeholders to have confidence that agencies not only have the competence and expertise required, but that they have also established robust administrative arrangements that enable them to do so efficiently, effectively and ethically.

Weakness in financial management and corrupt practices legitimises bad governance and diverts funding and energy away from development plans and achievement of national goals. Poor financial management, coupled with misuse of public money, has contributed to a decline in service delivery to the public, and since independence, financial mismanagement and corruption have had detrimental impacts on PNG's development processes.

## **5. RESULTS OF AUDITS PER PROVINCE**

### **5.1 BOUGAINVILLE AUTONOMOUS GOVERNMENT**

#### **5.1.1 Introduction**

This Audit Report covers the Autonomous Bougainville Government, Buka Urban Local-level Government, Buka General Hospital, and Business Arm's financial statements and transactions of financial years 2011, 2012 and 2013.

#### **5.1.2 Autonomous Bougainville Government**

##### **5.1.2.1 Financial Statements – 2011 to 2013**

The Annual Financial Statements for the financial years ending 31 December 2012 and 2013 were not yet prepared and presented to my Office for audit at the time of preparing this Report. I will issue audit reports to the Minister responsible once the statements are submitted and audited.

I was not able to obtain absolute assurance on the accuracy and reliability of the Autonomous Bougainville Government 2011 Annual Financial Statements disclosed balances, hence, a Disclaimer Audit Opinion was issued. I have noted significant errors, omissions, misstatements and an unreliable internal control environment that materially affected the reported balances, consequently the fund balance. Further, the financial statements presented were not signed and certified thereby presenting a scope limitation which affected the entire financial statements and their reported balances. My Audit Report to the Minister responsible also contained similar issues relating to the internal control environment as summarised in the paragraphs below.

##### **5.1.2.2 Control Environment**

###### **1. Corporate Governance**

Effective service delivery entirely depends on prudent corporate governance. Adoption of a corporate plan with clearly identified goals and objectives enables good corporate planning and the directing and controlling of scarce resources in order to attain maximum output.

Autonomous Bougainville Government did not have in place a corporate plan with clearly identified corporate goals, objectives and strategies to enhance service delivery. I was not able to review procedures and mechanisms devised to facilitate effective service delivery to its people. Further, I was not able to test the integrity and reliability of Autonomous Bougainville Government internal controls and risk management procedures.

Those charged with corporate governance responsibilities should ensure adoption of a suitable corporate strategy or plan with clearly defined goals and objectives in order to drive Autonomous Bougainville Government annual budgeted activities and scarce resources in the right direction to achieve corporate goals and objectives.

###### **2. Work of Internal Audit**

The Internal Audit Function is a key administrative function that oversees the effectiveness of other functions and internal controls within the administration. An

effective Internal Audit Unit provides absolute assurance and instills integrity in the internal controls that management established to rely on.

As at the time of my audit inspection the Autonomous Bougainville Government did not have in place an Internal Audit Function. That indicated a major control weakness -in essence the reliability of various management systems established to deliver basic services. I was not able to assess the effectiveness of its internal controls to obtain assurance as to whether I could rely on information provided from unmonitored sources.

Those charges with governance responsibilities should ensure an Internal Audit Function is created on the Autonomous Bougainville Government administration structure to enable regular appraisal of the internal controls for effectiveness.

### **3. Appropriation and Budget Management**

The annual budget of the Autonomous Bougainville Government should form part of the corporate strategy aligned with corporate plan goals and objectives. The fact that annual budgets formulated and implemented in line with a well-developed practicable corporate plan would bear better results if prudently managed. Further, annual budgets legitimately authorise collection and spending of public funds hence, legislative approval of annual budgets are necessary to legalise public funds collected and spent within the parameters of the budget limitations and for the intended purposes.

I was not able to ascertain the extent to which the Autonomous Bougainville Government annual budget of K264,651,600 was implemented and achieved in view of the following control weaknesses:

- Posting errors resulted in significant variances between the expenditure ledgers budget estimate balance of K127,402,200 and the Appropriation Act budget estimate balance of K264,651,600. Further, the revised budget estimate balance of K129,737,400 captured in the expenditure ledgers was not supported with a revised Appropriation Act. The contradictory and misleading balances indicate existence of poor accounting practices. I was not able to assess whether related accounting entries were completely made in the PGAS system to correctly record every transaction occurred in the budget implementation process;
- Complete documentation of the budgetary process was very poor, hence, key controlling documents such as the Appropriation Acts, Ministerial approvals, and warrant authorities, supporting documents relating to budget formulation, implementation and performance reviews were either not maintained or incomplete. I was not able to perform analytical procedures to determine actual performance of the annual budget and also I was not able to confirm legal authorisation of the budget; and
- Lack of a corporate plan impacted proper budget formulation, directing and controlling of the Autonomous Bougainville Government scarce resources to achieve corporate goals and objectives. I was not able to ascertain the basis of resource allocation in the budget that was formulated and implemented during the year.

The budget officers should ensure a corporate plan with clearly achievable corporate goals and objectives is adopted to drive the Autonomous Bougainville Government budgets and activities in line with corporate strategies.

### **4. Revenues and Receivables**

Effective revenue management with adequate documentation of sources and procedures relevant for planning and collection of the entire potential revenue ensures that potential revenue is collected intact.



I was not able to obtain absolute assurance on the effectiveness of the internal controls relating to revenue management in view of the following control weaknesses:

- Autonomous Bougainville Government in the year under review did not have in place proper revenue management policies, control procedures for each source of revenue to facilitate budget formulation and to review actual results against budget targets. I was not able to assess the basis of revenue forecasts made in the budget and ascertain whether the budget set were achievable;
- Significant under collection of revenue were revealed in analytical procedures I performed to compare actual results against budget targets. Excluding the public servant salaries and allowances component of the revenue budget, the budget estimate relating to other sources totalling K209,811,800 was under collected by K155,012,101 as against actual revenues of K54,799,699. I was not able to review revenue management procedures and establish the cause of the significant under collection; and
- Delays in banking of daily collections noted in my review of collection and banking procedures indicate a minor but an important control weakness that needs immediate attention of responsible revenue managers.

## 5. Procurement Procedures

Prudent expenditure management is necessary in order to enhance effective service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- Effective procurement management ensures quality service delivery with limited resources. I was not able to ascertain the effectiveness of the Autonomous Bougainville Government procurement management system due to non-existence of key documents such as PSTB minutes, contract files containing signed contracts, tender boxes, tenders or and quotation registers, Register of Declarations by PSTB Board members, and project management files;
- Supporting vouchers for payments totalling K3,959,435 were not available for my inspection to ensure the payments made were genuine and appropriate;
- I was not able to obtain assurance whether payments totalling K354,557 lacking certification of the duly appointed certifying officer were legitimate and appropriate;
- Adequate maintenance of a quotation register provides assurance that goods and services acquired were of the best quality and cheapest prices comparatively. Autonomous Bougainville Government did not maintain a quotation register to show why no quotations were called for payments totalling K2,870,013. I was not able to ascertain whether goods and services acquired were of the best quality at the cheapest prices available in the local market;
- An adequately maintained advance registers and acquittal vouchers provide assurance that advance management system is effective. I was not able to obtain assurance that cash advances totalling K5,176,466 (2011 included) not registered and K701,431 lacking acquittal vouchers were legitimate expenditures. Officers responsible for administering advances must adopt improved advance management policies to address these major control issues noted;
- Existence of an effective grants and subsidies management system provides absolute assurance that lump-sum funds released to implementing agencies to implement state funded projects were appropriately spent on the intended purposes. Autonomous Bougainville Government did have in place a monitoring and controlling mechanism in place to effectively monitor and obtain accountability reports on the usage of grants totalling K6,663,453 released to

various implementing agencies during the year. I was not able to ascertain that these expenditures were legitimate. Provincial Treasury staff should ensure controlling and monitoring mechanisms are devised to effectively manage grants and subsidies; and

- Tenancy Agreements provide assurance that rental payments are correct and genuine. I was not able to ascertain the validity and appropriateness of rental payments totalling K920,921 that lacked support of tenancy agreements.

#### Capital Works and Maintenance Expenditures

I was not able to obtain assurance that payments incurred on following capital works and maintenance projects were legitimate:

- Payments of K1,135,167 relating to eight projects worth hundreds of thousands were awarded to various contractors without calling for quotations to accept the cheapest quotations;
- A contract value of K370,000 was fully paid for the Commerce Building but the building was incomplete at the time of the field audit visit;
- The Buka ring road said to be completed was cracked with potholes and fast deteriorating after a year of completion; and
- The Autonomous Bougainville Government Finance Building said to be complete was standing incomplete at the time of the field audit visit.

### **6. Cash Management**

Prudent cash management practices are essential to reflect the Provincial Government's cash position or alternatively the fund balance at any point in time and to enable management to make prudent cash management decisions.

I was not able to establish the Autonomous Bougainville Government cash position as at 31 December 2012 due to distorted cashbook balances. The cashbook balances were affected by the accumulated accounting errors which had not been identified and adjusted in their respective accounting periods.

Provincial Treasury officers should ensure that such errors do not repeat again and seek authorisation from competent authorities to clear the current outstanding errors.

### **7. Asset Management**

Effective asset management and usage would contribute to better service delivery. Proper asset control and monitoring would prevent fraudulent use of assets for personal gains, theft and reliable data would be available for relevant decisions regarding asset disposal and acquisition.

I was not able to ascertain whether the Autonomous Bougainville Government assets were adequately managed during 2011 and 2012 financial years. The key control procedures and documents such as comprehensive Asset Registers, periodical stocktakes were lacking. Further, Assets purchased in 2011 and 2012 totalling K628,044 and K1,681,880 respectively were not registered.

The officers responsible for asset management should ensure asset management policies are adopted to effectively manage the Autonomous Bougainville Government assets to facilitate effective service delivery.

I have sighted some positive actions taken by the Autonomous Bougainville Government to address part of the asset issues during the audit visit. Two policy documents were developed - the Motor Vehicle Policy was endorsed and in use while the Housing policy was in the draft stage. I will progressively monitor, review and report annually on the effectiveness of these two policies and others the Autonomous Bougainville Government may develop to effectively manage its assets.

## **8. Trust Account Management**

Trust Accounts are established and operated as directed by the Finance Minister or any other law. Trust Instruments provide in detail how the Trust Fund should be governed to effectively serve its intended purpose.

The Autonomous Bougainville Government operated a total of nineteen trusts, eleven non-bank Trust Accounts and eight bank Trust Accounts with closing balances of K690,168 and K6,265,767 respectively. Neither Trust Instruments nor any other document providing information on how to administer each of these trust funds was provided for my review. These are necessary to confirm whether activities carried out in these trust accounts conform to their administrative and operational guidelines and whether they relate to and form part of Autonomous Bougainville Government funds.

## **9. Human Resource Management**

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated personnel can perform their duties diligently and provide quality service.

I was denied access to personal files and other underlying records maintained by the Autonomous Bougainville Government administration for the public servants due to ongoing renovation work on the building in which the files were held. I did not perform any of the planned audit tests to assess the effectiveness of the Human Resources management system. The human resources management system controls will be covered in my 2014 report to Parliament.

## **10. Internal Control Weaknesses**

Those charged with corporate governance have not acted responsibly to ensure development and implementation of an internal control management procedure. The Autonomous Bougainville Government did not have in place a corporate plan and an Internal Audit function to set and drive the corporate goals and appraise the effectiveness of the monitoring systems established to achieve those corporate goals. Thereby annual budgets, cash, assets, procurements, human resources and investments were poorly managed during the year. Important accounting treatments have been ignored resulting in accumulated errors that have distorted cashbook balances and the Autonomous Bougainville Government cash position.

I was not able to obtain absolute assurance on the effectiveness of the Autonomous Bougainville Government's internal controls, consequently, I could not rely on the financial statement balances. Additionally, the Autonomous Bougainville Government President and Chief Administrator's failure to inform stakeholders on budget and financial performance during the fiscal year in the 2011 Annual Financial Statements is a clear demonstration of poor corporate governance.

### **5.1.2.3 Status of Financial Statements**

Annual Financial Statements for 2012 and 2013 were not prepared and presented to me

at the time this Report was prepared. As and when the statements are submitted to my office, I will conduct an audit and present the findings in my next annual report. The 2011 Annual Financial Statements received and audited were unsatisfactory hence a Disclaimer Opinion was issued.

### **5.2.1 Buka Urban Local-level Government**

#### **Status Report**

I have not commenced audit of the accounts and records of the Buka Urban Local-level Government for the financial years 2011, 2012 and 2013. Management of the entity is yet to furnish Annual Financial Statements relating to these years for me to carry out audits of respective years.

### **5.3.1 Buka General Hospital Board**

#### **Status Report**

I have not commenced the audit of the accounts and records of the Buka General Hospital Board for the financial years 2011, 2012 and 2013. Management of the entity is yet to furnish Annual Financial Statements relating to these years for me to carry out the audits of the respective years.

### **5.4.1 Business Arms**

#### **South Bougainville Engineering**

This entity last submitted its annual financial statements for financial year 2004. Since then I am yet to receive Annual Financial Statements for years 2005 to 2013. I am therefore not able to conduct audits and report on the status of this entity's affairs including financial position.

#### **North Solomon Marine Corporation**

This entity last submitted its annual financial statements for financial year 1992. Since then I am yet to receive Annual Financial Statements for years 1993 to 2013. I am therefore not able to conduct audits and report on the status of this entity's affairs including financial position.

#### **Bougainville Restoration and Development Authority**

This entity has never been submitting financial statements for audit ever since its inception. I am therefore not able to perform any audit and report on the status of this entity's affairs including financial position.

## 5.2 CENTRAL PROVINCE

### 5.2.1 Introduction

The report on the Central Province covers the audit of the accounts and records of the Central Provincial Government, the Motu Koita Assembly, the Port Moresby General Hospital Board, and Central Province Transport Authority (CPTA), one of the business arms of the Provincial Government. Except for the Motu Koita Assembly, the reports cover the financial years ending 31 December 2011- 2012 for the Provincial Government; 2010 for the Hospital Board and 2007 – 2009 for the business arm. For the purpose of Part 3 of the Auditor-General's Report to the National Parliament, matters arising from the most recent year of audit have been presented below.

### 5.2.2 Central Provincial Government

#### 5.2.2.1 Financial Statements – 2012

My report to the Ministers for Inter-Government Relations, the Treasury and the Finance respectively under the *Organic Law* on the financial statements of the Central Provincial Government for the year ended 31 December 2012 was issued on 10 June 2014. The report was a Disclaimer of Opinion.

#### “Basis for Disclaimer Opinion

##### Presentation Errors

Finance Instructions issued under the *PFMA* prescribe the format for the preparation and presentation of the financial statements for Provincial Governments. The financial statements for Central Provincial Government however, did not fully comply with format prescribed by Finance Instructions in that statement ‘A’, the statement of Provincial Account Balances was not signed by the Provincial Administrator and Treasurer to authenticate the report as legal document presenting true and fair view of financial activities of the Provincial Government during the year. At the time of preparing this Report, the signed statement was awaited.

##### Disclosure Errors

Statement ‘A’, the statement of Provincial Account Balances showed a Provincial Funds balance of K19,697,941 as at 31 December 2012 as represented by the Provincial Government Operating Account balance of K9,109,745, the Provincial Government Grant Account balance of K9,878,778 and other reconciling items of K709,418. The following observations rendered these balances inaccurate and unreliable:

- The Accumulated Opening Fund balance of K9,834,976 contained inherited errors brought forward from previous years;
- Net surplus balance of K9,968,432 was unreliable as it was affected by significant errors noted in the revenue and expenditure statements;
- The Accumulative Trust Fund balance of K105,468 (overdraft) was understated by K161,963; and
- Other reconciling items of K709,418 could not be traced to their source documents.

The Provincial Government had subsequently responded positively to my management letter queries stating that it had taken note of the audit observations and had adjusted balances to the affected statements to the Provincial Government's financial statements.

At the time of preparing this Report however, the adjusted statements to the financial statements were not provided.

### **Disclaimer of Opinion**

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I am unable to express an opinion on the Provincial Government's financial statements for the year ended 31 December 2012."

#### **5.2.2.1 Financial Statements – 2011**

My report to the Ministers for Inter-Government Relations, the Treasury and the Finance respectively under the *Organic Law* on the financial statements of the Central Provincial Government for the year ended 31 December 2011 was issued on 15 May 2014. The report was a Disclaimer of Opinion.

#### **“Basis for Disclaimer Opinion**

##### **Presentation Errors**

Finance Instructions issued under the *PFMA* prescribe the format for the preparation and presentation of the financial statements for Provincial Governments. The financial statements for the Central Provincial Government however, did not fully comply with format prescribed by the Finance Instructions in that the 2010 comparative figures were not shown in Statement 'A', the statement of Provincial Account Balances. Further, the expenditure description headings on pages 14 to 16 of Statement "K", the expenditure statement, were incorrectly labeled as "National Recurrent Expenditure" rather than the Provincial Recurrent Expenditure.

##### **Disclosure Errors**

###### Cash Balances

Statement 'A', the statement of Provincial Account Balances showed Provincial Funds Balance of K9,242,349 as at 31 December 2011 as represented by Provincial Government Operating Account balance of K9,242, 349. The following observations rendered this balance inaccurate and unreliable:

- The Accumulated Opening Fund balance of K2,115,340 contained inherited errors brought forward from previous years;
- The prior year adjustment of K11,608,160 could not be traced and confirmed to any supporting documentations and management representation;
- The net surplus balance of K302,337 is unreliable due to significant errors and omissions noted in statements 'J' and 'K', the statements of revenue and expenditure respectively;
- The Trust Fund balance of K105,468 (over draft) reported in statement 'A' could not be confirmed to any reliable and updated information; and
- The Net Investment figures, if any, relating to business arms that could have been reported in Statement 'F' were not identified and disclosed to reflect a realistic fund balance.

###### Receipts and Payments

Statement 'B', the summary statement of revenue and expenditure showed a total revenue of K80,844,922 against total expenditure of K80,542,585 and a net operating

surplus of K302,337. I was however, unable to confirm the accuracy and therefore, the reliability of the revenue and expenditure statements balances and therefore, the accuracy and reliability of the summary statement balances due to the following reasons:

- The revenue and expenditure component of Teachers Service Commission Salaries and Central Provincial Administration Staffing Grants reported in the revenue and expenditure statements as K48,855,529 respectively could not be confirmed to Department of Finance TMS 55 Report; and
- Substantial numbers and amounts of reconciling items of revenue and expenditure for both the Provincial Operating Account and Grant Account were not adjusted in the cashbooks and posted to respective revenue and expenditure ledgers.

#### Assets

The Provincial Government lacked proper management controls over its assets. Consequently, assets purchased in prior and the current year's totalling K1,417,620 were not recorded nor disclosed in the financial statements.

#### Advances

The outstanding advances were reported as K768,455 at yearend. The accuracy of this balance could not be confirmed due to lack of an updated Advance Register, acquittal files and other related records.

The Provincial Government had subsequently responded positively to my management letter queries stating that it had taken note of the audit observations and had adjusted balances to the affected statements to the Provincial Government's financial statements for the year ended 31 December 2011. At the time of preparing this Report however, the adjusted statements to the financial statements were not provided for my final review.

#### **Disclaimer of Opinion**

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I am unable to express an opinion on the Provincial Government's financial statements for the year ended 31 December 2011."

#### **5.2.2.3 Control Environment**

In accordance with the *Audit Act 1989* and the *Organic Law*, I have a duty to report on other significant control issues arising out of the financial statements to which the reports relate. I have observed similar issues in 2011 and 2012 audits hence; only the 2012 issues are reproduced as follows:

##### **1. Corporate Governance**

The review revealed the following:

- The Provincial Government had a Corporate Plan for the period 2011 – 2015. The necessary associated annual activity plans for effective implementation of the corporate plan were not sighted. The annual budget was not plan driven, neither was the budgeted activities connected to the key result areas or the priority areas identified and incorporated in the plan. Further, no documentation was available to

show implementation, monitoring and reviewing of performance of the key result areas; and

- The Provincial Executive and Provincial Assembly Meeting Minutes for the periods January to June and July to December 2012 were administered by two different Provincial Assembly Clerks. These were not provided for my review at the time of the audit. As such, I could not ascertain whether any Provincial Assembly and Provincial Executive meetings were conducted during the year under review.

## **2. Work of Internal Audit**

The Internal Audit Unit was under staffed, underfunded and inadequately supported with logistics to effectively carry out its responsibilities. Consequently, no single Internal Audit Report was provided at the time of the audit. This problem had been noted and had been raised in our prior year audits. In the absence of an effective monitoring and control mechanism, such as the Internal Audit Unit, Audit could not ascertain whether and how the Central Provincial Government implemented and monitored the corporate plan.

## **3. Appropriation and Budget Management**

The Provincial Government's 2012 Appropriation Act (No.1 of 2012) which authorised the estimates of revenue and expenditure totalling K88,786, 900 for the year was passed by the Central Provincial Assembly on 10 January 2012. My review of the budgetary controls however, revealed the following matters:

- The Ministerial Instrument signed by the Minister for Treasury to approve the Central Provincial Government 2012 budget was not sighted at the time of the audit, nor was the 2012 budget certified by the Clerk of Provincial Assembly and the Provincial Governor;
- Expenditure ledgers revealed increments of K303,055 and K171,498 under 702 and 271 votes respectively. I was not provided evidence of any revised budgets done to incorporate the increases;
- Review of Budget documents, expenditure ledgers and financial statement 'K' revealed that the Central Provincial Government's Development budget of K12,150,000 was under spent by K450,000;
- Copies of warrant authorities were inadequately maintained to determine the exact grant revenues received from the National Government through the Department of Treasury could not be reliably confirmed; and
- Documentary evidence was not made available to show whether any budget performance reviews and evaluations were done during the year under review.

## **4. Revenue and Receivables**

My review of the revenue collection and banking and general control procedures revealed the following matters:

- GST proceeds totalling K10,106,000 were received by Central Provincial Administration from the Internal Revenue Commission and National Capital District Commission. However, formal GST sharing agreements signed between parties were not sighted to verify the accuracy and completeness of these receipts;
- Lack of segregation of duties in incompatible functions of revenue collection, receipting, banking and posting data into the PGAS system. Further the cashier was given unlimited excess to the cash office and the safe; and



- Sighted no evidence to indicate that there had been any surprise cash counts by the Internal Audit Unit during the year.

## **5. Procurement Procedures**

Audit review and tests on procurement procedures revealed the following matters:

### **a. Paid Accounts**

- Payment vouchers totalling K1,011,185 were missing from the files inspected. In the absence of supporting vouchers Audit could not verify the genuineness and legality of these payments;
- Payments totalling K482,567 were not supported with written quotation, which is not consistent with the objective of procuring for quality and economical purchases; and
- Payments totalling K441,877 made for legal payments had no documents attached to verify that these firms were legal counsel to the CPG.

### **b. Capital Works and Maintenance**

My review and examination of documents on capital works and maintenance expenditure of K7,052,671 revealed the following anomalies:

- Documents sighted indicated that four members of the Public Supply and Tenders Board (PSTB) have allegedly colluded to defraud the Central Provincial Government and therefore, the State in the awarding of contracts; improper payments on incomplete and substandard projects, and purchase of motor vehicles at a total cost of K2,991,980 and K248,024 respectively. The Provincial Administrator had subsequently given Notices of the charges to the officers concerned. I was however, not provided further evidences at the time of the audit to suggest whether any appropriate disciplinary actions were taken and/or formal charges lay against the officers;
- Contract documents for minor and major contracts, PSTB meeting minutes/decisions, Project Reports (Progressive/Completion Reports), Certificates of Completion, etc. were not available/provided for my examination. Consequently, I could not ascertain whether proper tender processes had been adhered to in the whole process of expenditures on capital works and maintenance;
- Supporting vouchers for payments totalling K3,168,978 were missing from the files maintained and provided for inspection;
- Payments totalling K712,557 were not supported with valid and binding contract documents;
- Although budget allocations for projects were fully paid to contractors, the payments totalling K539,894 were not supported with project inspection and certification reports and completion certificates; and
- Tenderable payments totalling K921,863 made to a construction company were not supported with Supplies and Tenders Board Decision.

### **c. Grants and Subsidies**

A total of K5,178, 225 was paid as grants and subsidies to the Districts and Local-level Governments during the year. I was however, not provided any form of accountability reports/disbursement statements from the recipients to ascertain proper use of the funds provided or the funds properly accounted for.

#### **d. Advances Management**

The review of advances registers, expenditure ledgers and other related records revealed the following matters:

- An Advance Register maintained in the PGAS system was either incomplete or not properly updated, resulting in the failure to capture advances totalling K1,621,714. Further, advances totalling K1,794,093 remained unacquitted at year end; and
- The available documents indicated that a certain officer had obtained cash advances and travel allowances on 11 instances totalling K143,232 but failed to acquit any single advance. The officer was given notice of his charges subsequently. I was however, not provided further evidence to suggest any recovery actions taken on the amount outstanding at the time of the audit.

#### **6. Cash Management**

The Provincial Government maintained two bank accounts, namely the Operating Account and Grant Account with two separate cash books to conduct its financial transactions for Grant and Internal Revenues respectively. The inspection of these two bank accounts together with related records revealed the following issues:

- The closing bank and cash book balances reported above were not reconciled due to the application of wrong bank reconciliation procedures;
- The monthly bank reconciliations were not checked and certified by the Provincial Treasurer as a correct copy;
- The significant reconcilable items parked in the supporting schedules had been outstanding for years thus distorting the real cash book and account balances. These items had not been identified and cleared consistent with the relevant Financial Instructions;
- The bank statements credits in the Provincial Government Operating Account not in the cash book totalling K805,404 were neither posted to the revenue ledgers nor disclosed in the revenue statement;
- A telegraphic transfer of K104,866 in the Operating Account as representing unaccounted expenditure had not been taken up in the expenditure ledgers and cash book by way of journal entry; and
- Reconciling amount of K2,381,135 between CRL and bank statement representing unaccounted expenditure were not posted to their respective expenditure ledgers resulting in the understatement of the expenditure statement.

#### **7. Journal Management**

My review of the journal entries and related ledgers and supporting vouchers revealed that Journal entries worth K13,158,085 raised and posted were not signed and certified by the officer responsible nor attested by a senior officer prior to posting. As such, I was unable to ascertain the validity and legality of the entire journal entries raised and posted.

#### **8. Asset Management**

The Asset Registers were not properly maintained thus failed to record assets totalling K501,480 purchased during the year. Other assets were recorded without details such as cost prices, acquisition date, serial and model numbers, present market values, location

or custodian of the assets, etc. Further, no periodic stocktakes were done to ensure all assets exist and owned by the Provincial Government. Consequently, I could not confirm nor ascertain whether all assets of the Provincial Government had been properly accounted for during the year.

## **9. Human Resource Management**

The examination of payrolls, personal files and other related records revealed the following issues:

- Pay variations noted between different pay periods for the same officers were not supported with Permanent Variation Advice's, Temporary Variation Advice's, performance appraisal's, etc.; and
- Supporting documentation such as attendance registers, applicable SRC determinations, etc. were not provided to support sitting and other allowances paid to the Provincial Assembly members.

### **5.2.2.4 Management Response**

I have noted the responses provided by the Provincial Government to all my audit queries and hope to see some improvements as indicated in my subsequent audits.

### **5.2.2.5 Status of Financial Statements**

At the time of preparing this Report, the Provincial Government had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

## **5.2.3 Motu Koita Assembly**

### **5.2.3.1 Introduction**

The *Motu Koita Assembly Act 2007* provided for the establishment of a local government for the Motu Koita people. The purpose of the Act was to enable the Motu Koita people to participate actively and meaningfully in the development of the National Capital District.

The relevant sections of the *Organic Law* require the Assembly to submit its financial statements and its accounts and records to be audited by the AGO.

### **5.2.3.2 Status of Financial Statements**

Since its inception, the Motu Koita Assembly (MKA) had not prepared its financial statements for the years 2007 to 2010. The audit of the accounts and records and the related control environment for the financial year ended 31 December 2010 could not be conducted due to non-availability of the necessary records. Consequently, I was unable to comment on the financial status and the management of the funds and the affairs of Motu Koita Assembly for the year under review.

At the time of preparing this Report, the Assembly had not submitted its financial statements for the years ended 31 December 2011, 2012 and 2013 for my inspection and audit. The audits of the accounts and records and the related control environment were however, scheduled to commence shortly.

## 5.2.4 Port Moresby General Hospital Board

### 5.2.4.1 Introduction

Port Moresby General Hospital was established under the *Public Hospitals Act, 1994*. The relevant sections of the Act as well as the *PFMA* require the Hospital Board to submit its financial statements for audit. Relevant sections of the *Public Hospitals Act* and the *Audit Act* require the accounts and records to be audited by the Auditor-General and to be reported accordingly to the Minister responsible.

### 5.2.4.2 Financial Statements – 2010

My report to the Ministers for Health, the Treasury and the Finance respectively under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Hospital for the year ended 31 December 2010 was issued on 17 March 2014. The report was a Disclaimer of Opinion.

#### “Basis for Disclaimer of Opinion

##### Presentation and Disclosure Errors

The following errors rendered the financial statements of Port Moresby General Hospital for the year ended 31 December 2010 inaccurate, misleading and unreliable:

- The financial statements were not signed either by the Chief Executive Officer or the Chairman of the Hospital Board. Consequently the financial statement in its entirety could not be confirmed as a true and fair record of the state of affairs of the Port Moresby General Hospital for the year then ended;
- The consolidated revenue of K23,087,910 against expenditure of K23,225,883 with a net decrease in cash of K137,973 were not supported with explanatory notes on how accounts were consolidated;
- Opening balances for the Operation Account, Trust Account, and Special purpose Project Account were reported as K65,437, K34,560 (overdrawn) and K840,493 respectively. I have noted these balances as inaccurate and misleading as they did not agree with the audited 2009 closing balances; and
- The accuracy and reliability of the reported balances of assets and liabilities of K771,350 and K494,906 respectively could not be confirmed in the absence of an updated and comprehensive assets register.

##### Disclaimer of Opinion

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I am unable to express an opinion on the Port Moresby General Hospital Board’s financial statements for the year ended 31 December 2010.”

### 5.2.4.3 Control Environment

In accordance with the *Public Hospitals Act* and the *Audit Act*, I have a duty to report on other significant control issues arising out of the financial statements to which the reports relate. The significant control weaknesses noted are as restated below:

## **1. Corporate Governance**

Review of the records relating to the corporate governance issues revealed the following concerns:

- The Port Moresby General Hospital did have a 2010–2015 Corporate Plan. The Hospital, however, had no Board in place at the time of the audit to ensure effective implementation of the Corporate Plan. Further, I was not provided Board meeting minutes to indicate that the formal Board meetings were held during the year. I have noted however, that the Hospital had made payments as stipends and allowances to certain Board members amounting to over K47,500;
- In the absence of a formal Board in place, I was not able to satisfactorily conclude that the major decisions made in awarding of minor/major works contracts together with other decisions which required the Board's attention, were proper; and
- There was a serious lack of internal audit on the accounts of the hospital during the year under review to ensure that the control mechanisms instituted were operational and effective.

## **2. Appropriation and Budget Management**

Review of the Port Moresby General Hospital's budgets, appropriation and actual receipts against actual expenditures revealed the following concerns:

- The Hospital's original budget appropriation of K39,382,000 compared to its actual expenditure of K38,677,009 had revealed a net underspending of K704,991. I was not provided reasons or an explanation for the shortfall;
- Additionally, K19,045,000 that consists of salary and allowances were budgeted and paid through the Department of Finance of which no payroll reconciliation confirmation of the actual spending to date were sighted;
- No proper explanations were provided for various under and overspendings in almost all the expenditure items of the grant spending; and
- Internal revenue comprising hospital user fees and other revenues did not have a yearly budget plan to capture revenue and expenditures.

## **3. Revenue and Receivables**

Review of the revenue collection and banking and general control procedures revealed the following matters:

- Cash collected and recorded on collector statements could not be confirmed to deposit slips as deposit slips were not attached on each collector statement;
- Collector statements and deposit books had unexplained variances. Consequently, neither of the recorded amounts could be independently verified to the revenue ledgers indicating cash collected could have been stolen, borrowed or were used for other unknown purposes; and
- Payment of suppliers' invoices was noted to have been actioned by the cash office upon request by senior officers of the accounts, as well as other operational managers.

## **4. Procurement Procedures**

Review of the payment of accounts and procurement processes revealed serious discrepancies including the following:

**a. Paid Accounts**

- Formal appointment instruments of financial delegates (Section 32 Officers) were not provided to confirm the legality of the appointments. Consequently, I was unable to confirm the legality and appropriateness of persons who had acted in those positions and/or examined, certified and approved claims during the year;
- I noted forty-five instances of payments totalling K1,626,601 for which payment vouchers and records were either missing or simply not available;
- Fifty-nine instances of payments totalling K610,973 lacked proper approval by relevant Section 32 Officers;
- Accommodation rentals for various doctors, contract officers and others during the year amounted to K1,723,230. Formal tenancy agreements between the Hospital and the landlord for number of tenants with payments of over K536,000 were not signed. Consequently, rental expenditures were incurred without any formal agreement in place between the parties;
- Legal fees during the year totalling K389,214. I noted however, that the information on the nature of legal services rendered was not disclosed in the bills approved for payment, and that the rates for services rendered were never disclosed on the invoices;
- Payments made to a fuel supplier totalling over K160,000 lacked any formal and binding agreement in place. I have further observed that a number of contract officers receiving vehicle allowances had double dipped by being registered for fuel from the supplier;
- Payments relating to travel warrants for recreational leaves, duty travels and other official leave of sick totalling K1,673,935 were not supported with formally approved leave applications. I have also noted forty-two instances of recreational leave payments totalling K184, 928 paid directly to applicants rather than to the service provider without proper and justified reasons; and
- The Hospital had seriously failed to vouch for expenditures on routine maintenance during the year totalling K1,196,857 with duly approved maintenance forms and related contract agreements.

**b. Capital Works and Maintenance**

My review of the payments and records relating to the capital works expenditure revealed that the Hospital had expended a total of K9 million on a contract awarded to a contractor for the renovation at the Accident and Emergencies Ward out of the K15 million allocation from the Department of Finance for major renovation works and other developments. I have noted the following serious issues in this regard:

- The renovation of the Accident and Emergency Ward had remained incomplete at the time of the audit in September 2012 despite the magnitude of the contract amount;
- The available report and related records indicated that the awardee was the least preferred contractor; and
- Payment dockets relating to the project account were either missing or unavailable at the time of the audit.

**5. Cash Management**

The audit revealed the following:

- I noted a bank account for “Donations” operated by an individual for and on behalf

of the Port Moresby General Hospital. Full disclosure of information, details and records relating to the account however, was not available for my review at the time of the audit. Consequently, I was unable to verify the validity and appropriateness of bank account being operated by persons other than management of the Port Moresby General Hospital; and

- Deposit slips were not sighted or attached to the collector statements to verify whether cash collected had been deposited intact. Consequently, instances of unexplained variances were noted of cash per the collector statements and the cash deposit book records.

## 6. Assets Management

The following observations were made:

- Review of the Hospital's fixed assets register revealed that there had not been a proper maintenance and update of the assets register since 2005. An updated biomedical equipment listing of K13,608,106 provided differed with the value of assets disclosed in the financial statements; and
- No proper stocktake of all the assets were done to ensure controls were effective and assets were properly managed.

## 7. Human Resource Management

Examination of payrolls, personnel files and related records revealed satisfactory outcomes except the following:

- Instances of base salaries paid at levels above salary grades and levels;
- Casual wages for Pay #26 totalling K3,283,236 was paid as K2, 05,392 through the BSP Kundu Pei System while K677,844 was paid cash to casuals that do not have bank accounts or had problems with their Kundu Pei System. My review revealed that there had been problems encountered by casual staff in not having access to their pays due to wrong account details provided or the Hospital had failed to confirm casuals bank accounts with BSP before sending pays into their bank accounts; and
- Five instances of payments totalling K15,530 for overtime had no evidence to indicate that prior approval of the relevant sectional head was obtained to authorise the officers to work overtime.

### 5.2.4.4 Management Response

Management had not responded to my audit management letter queries. Consequently, I was not advised of any improvement at the time of preparation of this Report.

### 5.2.4.5 Status of Financial Statements

At the time of preparing this Report, the Board had not submitted its financial statements for the years ended 31 December 2011, 2012 and 2013 for my inspection and audit. The audits of the accounts and records and the related control environment were however, scheduled to commence shortly.

## 5.2.5 Central Province Transport Authority

### 5.2.5.1 Introduction

The Central Province Transport Authority (CPTA) was established under the *Central Province Transport Authority Act 1991* (as amended). The relevant Sections of the Act as

well as the *PFMA* and the *Audit Act* require the Authority to submit its financial statements and its accounts and records to be audited by the AGO.

### 5.2.5.2 Financial Statements - 2007 – 2009

The Authority had submitted its financial statements for the three years ended 31 December 2009. The fieldwork associated with the examination of the financial statements and the audit of the accounts and records had been completed and the management letters issued. At the time of preparing this Report, my report to the Ministers for Inter-Government Relations, the Treasury and the Finance respectively under the *Organic Law* on the financial statements of the Authority were being finalised.

### 5.2.5.3 Control Environment

In accordance with the *Audit Act* and the *Organic Law*, I have a duty to report on other significant control issues arising out of the financial statements to which the reports relate. I observed similar issues in 2007, 2008 and 2009 audits hence, only the 2009 issues are reproduced as follows:

#### 1. Corporate Governance

Management meeting minutes were not provided for my review. I was advised that there were management meetings held in 2009 however, meeting minutes were not maintained resulting in nil records of management meetings held.

#### 2. Appropriation and Budget Management

Budgetary audit review could not be performed due to a lack of budget documents. As such, I could not ascertain whether the revenues and expenditures during year had been within the budget.

#### 3. Revenue and Receivables

The Authority had disclosed its total revenues for the year ended 31 December 2009 as K4,250,198. Review of the Authority's revenue, procedures and related records revealed serious control weakness together with negligence and lack of maintenance of proper revenue records. The accuracy and completeness of these revenues could not be confirmed as correct due to the following weaknesses:

- No proper cash book and revenue ledgers apart from Point of Sale (POS) cash register carbon printouts were maintained. Daily balances of transactions or summaries were posted into the cash book and ledgers as "Deposits" and "Eftpos". Daily individual transactions were not recorded;
- As reported in the 2008 observations, the Authority used a receipting system called "Point of Sale (POS) Version 3.14 to receipt daily takings. The system produced a receipt similar to that produced by cash registers in retail shops. The details of the receipts are posted to the respective ledger accounts on the carbon copy of the receipt maintained on the register. I noted the print on the receipts to be illegible and have faded over time which diminishes the ability to use an audit trail as transactions could not be traced from the financial statements through to the cashbook and receipts. There was therefore, a scope limitation as tests could not be conducted to verify the accuracy of the total revenue reported for the year;
- The Authority's total revenue of K4,250,198 included revenues collected on behalf of the respective Local-level Governments (LLGs) for registration and licensing totalling K44,800. I was of the view that this had unnecessarily inflated the actual revenues for the authority to that extent as they are not directly related to the operations of the authority;



- An account described as “Contra” under the registration main revenue account was noted to have an excess balance of K823,964 whilst the corresponding account with the same account name under operations expenditures had an account balance of K989,786. The nature of these accounts or the explanation of the variance of K165,822 was not provided;
- I noted that under the existing “One-Stop-Shop” policy between Motor Vehicle Insurance Limited (MVIL) and CPTA, the parties have a “2-in-1 registration” arrangement where both registration and insurance of motor vehicles are captured on one document. Under this concept, MVIL retains the insurance component while it remits the registration fees component to CPTA. I noted the following weaknesses in respect of this arrangement:
  - i. The “2 in 1” arrangement had not been practically favorable for the Authority’s smooth and timely operation as it has had to unduly wait for the remittance of its registration fees component from the MVIL, which in turn impacted the timely settlement of its obligations with service providers and creditors; and
  - ii. No contract agreement between MVIL and CPTA was available to verify the legality of the arrangement.

#### **4. Procurement Procedures**

Review of the relevant expenditure records revealed an overall operational expenditure incurred during the year as K2,972,637 million. I noted the following weaknesses:

##### **4.1 Paid Accounts**

- Payments totalling of K240,941 were not appropriately approved or supported with invoices, receipts, duly approved travel requisitions, competitive quotes and completed acquittal forms;
- Payments totalling K165,000 for legal and consultancy fees were not supported with proper engagement or supporting documents in place to verify the payments. It is also noted that some of these legal and consultancy costs were for other entities than CPTA;
- A total of K87,879 paid vouchers were missing. As such, Audit could not verify these payments;
- The Authority had not maintained a proper and updated Advances Register to record all cash advances made during year as a control measure. Audit was not provided sufficient evidence to indicate that there were proper follow up on acquittals of cash advances. Further, I could not verify total amount of advances outstanding as at year end due to lack of proper documentations; and
- It was noted that the account “Contra” under operational expenditure had an excessive year-end balance of K989,786. I was not provided any explanation on the excess balance.

##### **4.2 Payments to Related Parties**

Review of the relevant expenditure records revealed that funds transferred or loaned to related parties during the year amounted to K1,221,002. The following observations were made in relation to these payments:

- I was advised that the Authority was obliged to and had been remitting K50,000 per month (K600,000/year) to the Central Provincial Government from revenues collected from its operations. I was however, not provided evidence to suggest that a formal and legal arrangement was in place. Further, the remittance of a specified

sum may be in breach of and, therefore, was in contrary to the *CPTA Act, 2004* (as amended);

- Payments to the Provincial Government and Central Province Administration of K570,468 and K187,584 respectively could not be verified as valid or appropriate in the absence of any formal and legal arrangement in place; and
- Payments in support of the business arms of the Provincial Government did not have the backing of the *CPTA Act*. As such, the validity of the payments could not be confirmed.

#### **4.3 Advances Management**

No proper advance register was maintained by the Authority for money given out to staff and management as cash advances. I noted the same observation in the previous years.

#### **5. Cash Management**

The Central Province Transport Authority operated an operating bank account with ANZ. All transactions of revenues and expenditures were conducted through this account during year. Following weaknesses have been noted:

- I noted variances in account balances for the year ended 31 December 2009 between the Bank confirmation records, the client reconciled balance and the financial statements. I was not provided explanations to the overall variance of K33,333 between the records; and
- Two cheques totalling K19,457 have not been unaccounted for. Details of the payees were not available for scrutiny.

#### **6. Asset Management**

The Authority had reported a total value of its fixed assets as K153,741 and its capital expenditures as K25,790 for the year ended 31 December 2009. The following weaknesses were noted:

- No proper fixed assets register with sufficient details was maintained by the Authority. As such, I could not confirm or verify the completeness and the accuracy of the fixed assets value and the amount expended on fixed assets during the year under review; and
- The motor vehicle fleet register maintained had not been updated with additions or assets disposed to date.

#### **7. Human Resource Management**

Review of payroll and related records for the year ended 31 December 2009 revealed that the Authority had incurred total salaries and wages expenses of K725,534, comprised of salaries and wages of K556,192 and employment allowances of K169,342. The following weaknesses have been noted:

- Staff personal files were not maintained appropriately and updated with necessary employment details;
- A sample check on a number of payrolls revealed incorrect tax rates had been applied in calculating the salary and wages tax of employees; and
- The Director for Central Province Investment Limited (CPIL) operating as Central Province Development Corporation (CPDC) was being paid salaries and

allowances by the CPTA. Total amount of salaries paid to the Director could not be verified due to improper records maintained.

#### **5.2.5.4 Management Response**

Management had not responded to my audit management letter queries. Consequently, I was not advised of any improvement at the time of preparation of this Report.

#### **5.2.5.5 Status of Financial Statements**

At the time of preparing this report, the authority had not submitted its financial statements for the four years ended 31 December 2013 for my inspection and audit. The audits of the accounts and records and the related control environment were however, scheduled to commence shortly.

## 5.3 EAST NEW BRITAIN PROVINCE

### 5.3.1 Introduction

The report on the East New Britain Province covers the audit of the accounts and records of the East New Britain Provincial Government, the Kokopo/Vunamami and Rabaul Urban Local-level Governments, the Nonga Base Hospital Board and the Gazelle Restoration Authority. The reports cover the financial years ending 31 December 2011, 2012 and 2013 for the Provincial Government, 2012 for Gazelle Restoration Authority and 2011 for Nonga Base Hospital Board, Kokopo/Vunamami and Rabaul Urban Local-level Governments respectively.

### 5.3.2 East New Britain Provincial Government

The East New Britain Provincial Government submitted its financial statements for the financial years ending 31 December 2011, 2012 and 2013. Field work associated with the audit of the accounts and records were completed with the Management Letters issued and the audit opinion reports issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and the control environment.

#### 5.3.2.1 Financial Statements – 2013

My reports to the Minister for Inter-Government Relations and Minister for Finance respectively under Section 113 (8a) and (8b) of the *Organic Law* on the financial statements of the East New Britain Provincial Government for the years ended 31 December 2011, 2012 and 2013 were issued on 8 May 2014, 5 June 2014 and 3 July 2014 respectively. These reports contained similar Disclaimer of Opinions, hence only the 2013 report is reproduced as follows.

#### “Basis for Disclaimer Opinions”

##### 1. Cash Balances

I noted significant errors on the Provincial Account Balances presented in statement ‘A’ arising from material omissions and misstatements on related statements ‘B’, ‘C’, ‘D’, ‘E’, ‘F’, ‘J’, ‘K’ and the corresponding books and records. Consequently, I am unable to express an opinion on the accuracy of the cash balances and the financial position of the East New Britain Provincial Government as at 31 December 2013 due to the following reasons:

1. The East New Britain Provincial Government cash and bank balance of K7,244,831 included an old operating account balance of K4,422,292. The reported bank balance was not supported by the actual cash balance held in the bank account as this operating account has been dormant since 2009;
2. The Provincial Revenue Fund balance of K8,877,610 could not be confirmed as correct due to errors and material misstatements effecting the accuracy and reliability of the operating surplus disclosed in the summary statement of revenues and expenditures; and
3. Statement ‘E’ showed investment of K62,241 held in an Interest Bearing Deposit with Bank South Pacific while Statement ‘F’ disclosed share investments totalling K2,689,252 with East New Britain Development Corporation valued at K2,159,139 and K530,113 in Barakopo Plantation Development Corporation. These investments are not disclosed in Statement ‘A’ and as such constitute a material effect on the cash at bank balances reported in the Statement. Further, in the absence of the audited financial statements of the investment companies, investment register and other

related records not provided for my review, I was unable to verify the accuracy, completeness, existence and ownership of the investment balance of K62,241 and K2,689,252 disclosed in Statements 'E' and 'F'.

## **2. Receipts and Payments for 2013**

Statement 'B', the summary statement of revenue and expenditure, showed total revenue of K128,399,190 against total expenditure of K127,954,158 and a net operating surplus of K445,032. I am however, unable to confirm the accuracy and therefore, the reliability of the revenue and expenditure statements balances and therefore, the accuracy and reliability of the summary statement balances due to the following reasons:

- The total revenue of K128,399,190 included former years' appropriation totalling K756,800 received in the current year and adjustments of stale cheques totalling K709,087 written back to the cashbook. The former years' receipts should have been excluded from the actual receipts for the year and disclosed in the Notes to that effect as these are not actual receipts for the current year;
- The revenue and expenditure component of the Teaching Services Commission and East New Britain Provincial Administration Staffing Grants reported in the revenue and expenditure statements as K40,064,687 and K8,110,955 respectively were not taken up in the revenue and expenditure ledgers as these were provided for in the Annual Appropriation Act; and
- Substantial numbers and amounts of reconciling items of revenue and expenditure for the Provincial Government Operating Account were not adjusted in the cashbook and posted to respective revenue and expenditure ledgers.

## **3. Investments**

As stated in my previous year's Audit Report, the Provincial Government paid K5,500,000 to a Fishery Project Developer as initial part payment to acquire its fifty-one percent shareholding with the company. The National Fisheries Authority was to have issued twenty fishing licenses under the project agreement. I observed however, the fishing licenses and share certificates have not been obtained due to legal proceedings by the National Fisheries Authority against the project developer, the Provincial Government and the State.

## **4. Assets**

Appendix 4 to the financial statements disclosed the balance of fixed assets as K413,939,736 as at 31 December 2013. However, due to inadequate maintenance of the asset registers and incompleteness in recording detailed information of these assets, I am unable to verify the accuracy of the value of fixed assets owned and under custody of the East New Britain Provincial Government.

## **5. Advances**

Appendix 6 to the financial statements disclosed advances totalling K251,414 remained unacquitted at year end. However, my review of the PGAS Outstanding Advances Reports revealed thirty-one instances of payment of advances totalling K216,365 dating back to 2009 which were not acquitted that had been omitted from the Appendix. Consequently, I am unable to rely on the completeness and accuracy of total unacquitted advances K251,414 disclosed at year end.

## **Disclaimer of Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of

Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and accordingly, I am unable to express an opinion on the East New Britain Provincial Government financial statements for the year ended 31 December 2013.

### **5.3.1.2 Control Environment**

#### **1. Revenue Management**

Review of the East New Britain Provincial Government's revenue management processes identified there were inordinate delays in banking of revenue collections ranging from one day to a maximum of fifty days.

The issue indicated serious weaknesses in controls over collection and banking of revenues. Such weaknesses might expose the Provincial Government to misappropriation of public moneys and fraudulent activities.

#### **2. Cash Management**

The Office of the Provincial Administrator maintained and operated a bank account titled 'Administrative Expense Account'. I was not provided sufficient evidence to confirm the legal existence and operation of this account. Further, the Provincial Treasury Office confirmed there had been no acquittals with relevant supporting documents provided when submitting claims to replenish funds into the account.

#### **3. Procurement and Payment Procedures**

The audit review and test of procurement and payment procedures revealed the following issues;

- Section 32 Officers who approve Requisitions for Expenditure (FF3) fail to disclose their designation and financial limits to approve expenditure. Further, I observed financial delegates had approved expenditures totalling K107,989 in excess of their designated financial limits of K10,000 to K25,000;
- Payment vouchers relating to expenditures incurred totalling K1,513,092 were not available for my review;
- Payments totalling K1,015,756 were not certified to determine the legitimacy of expenditures incurred whilst in seven instances, payments totalling K67,852 were not approved by the appropriate Financial Delegate prior to processing payment of the claims; and
- The Requisitions for Expenditure (FF3) relating to payments totalling K320,317 were not approved by the appropriate Section 32 Officers whilst in forty-one instances, the Provincial Government charged expenditure totalling K1,546,099 to inappropriate vote items.

#### **4. Capital Works and Maintenance**

- The East New Britain Provincial Supply and Tenders Board approved funds of K650,000 for maintenance of 26.8 kilometres of road. I observed the private contractor engaged on the project was paid a total of K714,500 which appears to have exceeded the Provincial Supply and Tenders Board approved contract value by K64,500. I was not provided evidence for my satisfaction that the variation to the contract value was sanctioned nor approved by the Provincial Supply and Tenders Board;

- Payments totalling K3,499,527 to private contractors were not supported with Certificates of Completion or Work in Progress Reports duly certified by competent technical staff of the Provincial Government to indicate the extent or status of works undertaken had been satisfactorily executed according to specifications and scope of work.

## 5. Grants and Subsidies

Significant amounts of payments of grants and subsidies and financial assistance to non-profit organisations, public authorities, churches, health centers/aid posts, schools, business arms, small/medium enterprises and individuals lack evidence of accountability reports by the recipients, nor were there records to indicate that the Provincial Government had sought these reports.

## 6. Salaries and Allowances

My review of the Provincial Assembly Members Payroll Nos. 14 and 26 of 2013 revealed the Provincial Governor was paid his entitlements as per the Salaries and Remuneration Commission Determination on a fortnightly basis, tax free. The Senior Officers of the East New Britain Provincial Administration were also recipients of monthly vehicle allowances of K2,000 tax free.

### 5.3.1.3 Management Response

Management had not responded to the matters raised in my Management Letter queries. Consequently, I was not advised of any improvement at the time of preparing this Report.

### 5.3.1.4 Status of Financial Statements

The East New Britain Provincial Government had submitted its financial statements for the year ended 31 December 2011, 2012 and 2013 for my inspection and audit.

## 5.3.2 Nonga Base Hospital

### 5.3.2.1 Introduction

Nonga Base Hospital was established under the *Public Hospitals Act*. The relevant Sections of the Act as well as the *PFMA* require the Hospital Board to submit its financial statements. Relevant Sections of the *Public Hospitals Act* and the *Audit Act* require the accounts and records to be audited by the Auditor-General and to be reported accordingly to the Minister responsible.

### 5.3.2.2 Financial Statements – 2011

My report to the Ministers for Health and Finance respectively under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Nonga Base Hospital for the year ended 31 December 2011 was issued on 5 June, 2014. The report was a Disclaimer of Opinion.

#### “Basis for Disclaimer of Opinion”

##### 1. Presentation and Disclosure Errors

Finance Instruction 02/2004 issued under Section 117 of the *PFMA* state the prescribed format for the preparation and presentation of the financial statements for Non-Trading

Public Bodies. The 2011 financial statements for Nonga Base Hospital consisting of respective Operating and Hospital Fees Trust Fund Accounts Statements of Receipts and Payments were not consolidated to present the Consolidated Fund Statement of Receipts and Expenditure of the Hospital and also did not contain the Schedule of Capital Assets and Liabilities. Consequently, the financial statements were not presented in the format required by the Finance Instructions.

There was a limitation of scope arising from the material misstatement of cash balances due to errors and omissions of receipts and payments in the Operating and Hospital Fees Trust Accounts cashbooks thus, resulting in reconciling differences with the bank balances. Consequently, I was unable to verify the accuracy of the excess of receipts over expenditure of K1,473,371 and K965,510 as reported for the Operating and Hospital Fees Trust Accounts respectively.

The Assets Register maintained by Nonga Base Hospital was incomplete and had not been updated to account for all assets purchased, donated or transferred during the interception of Hospital Board by virtue of the *Public Hospital Act*. Due to the incompleteness of the assets register maintained and the lack of appropriate information provided on all assets of the Hospital, I was unable to verify the completeness, existence and value of all fixed assets owned and in the custody of the Hospital at year end.

The Nonga Base Hospital did not maintain adequate inventory records nor had an effective system in place to ensure inventories are safeguarded against theft and misuse and personal use.

### **Disclaimer of Opinion**

Because of the significance of the matters described in the basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and accordingly, I am unable to express an opinion on the Nonga Base Hospital financial statements for the year ended 31 December 2011.

### **5.3.2.3 Control Environment**

#### **1. Budget Management**

- The controls exercised over the usage and management of allocated funds was lacking. My review of expenditure records pertaining to the Hospital Operating Account revealed instances of over-expenditures totalling K137,405; and
- Nonga Base Hospital paid certain operational expenditures out of funds from the Hospital Fees Trust Account which did not fall within the categories of expenditure as set out in Section 2(c)(i) to (iv) of the Revised Hospital Fees Trust Account Instrument of 22 June 1998. The incorrect expenses included office operational materials and supplies of K59,990 and training expenses of K49,922. Similar issues were highlighted in my previous years' Audit Report.

#### **2. Revenue Management**

The Statement of Receipts and Payments for the Hospital Operating Account and Hospital Fees Trust Account revealed total revenue receipts for the year ended 31 December 2011 as K5,470,582. However, due to inadequate maintenance of proper revenue ledgers, I am unable to verify the accuracy of actual revenues of K5,470,582 received for the year as correct.



### 3. Advances Management

Nonga Base Hospital lacked proper monitoring and recovery processes on travelling allowances, salary and cash advances totalling K59,225 paid to officers dating back to 2008 that had not been acquitted as at 31 December 2011. I also observed instances of payments of travelling allowances and cash advances to officers totalling K21,212 that had not been recorded in the Advances Register.

### 4. Payment of Accounts

Nonga Base Hospital purchased a horizontal (PSAW401D 16" x 24") high steam steriliser at a cost of K72,335. I observed the expenditure was not sanctioned by the Nonga Base Hospital Executive Management Committee or the Hospital Board despite the Executive Management Committee Meeting Resolution of 03/2011 that all payments in excess of K10,000 were to be approved by the Committee.

#### 5.3.2.4 Management Response

I have noted the responses provided by the Hospital to my audit queries and hope to see some improvements as indicated in my subsequent audits.

#### 5.3.2.5 Status of Financial Statements

At the time of preparing this Report, the Nonga Base Hospital had not submitted its financial statements for the year ended 31 December 2012 and 2013 for my inspection and audit.

### 5.3.3 Kokopo/Vunamami Urban Local-level Government

#### 5.3.3.1 Introduction

The Kokopo/Vunamami Urban Local-level Government (ULLG) submitted its financial statements for the year ended 31 December 2011. Field work associated with audit of the accounts and records were completed with the Management Letter issued and the audit opinion report was also issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statement and the control environment.

#### 5.3.3.2 Financial Statements– 2011

My Report to the Ministers for Inter-Government Relations and Finance in accordance with relevant provisions of *the Organic Law* on the financial statements of the Kokopo/Vunamami ULLG for the year ended 31 December 2011 was issued on 27 May, 2014. The Report was a Qualified Audit Opinion.

#### “Basis for Qualified Audit Opinion”

##### 1. Disclosure Errors

###### Bank Balance

I noted the bank statement balance of the Kokopo/Vunamami ULLG Operating Account as at 31 December 2011 disclosed in Note 6.2 to the accounts in Statement ‘A’ was incorrectly presented as K35,010 when the correct balance was K350,310.

### **Actual Expenditure – 200 Vote Series**

Statement 'K' (Statement of Expenditure) was understated by the total expenditure of K1,009,044. The total expenditure of K1,009,044 recorded under the 200 vote series (Grants) was arithmetically not added to the Statement total. However, other related Statements 'A', 'B' and 'D' were not affected by the omission of grants expenditure.

### **Outstanding Commitments and Arrears**

The outstanding commitments and arrears for the year ended 31 December 2011 was shown as 'Nil' while Note 12 to the accounts in Statement 'A' showed outstanding commitments as at 31 December 2011 as K571,239.

## **2. Assets**

There was no movement in the opening value of fixed assets and the closing balance of K701,312 indicating no additions or disposal of fixed assets had taken place during the year while there were no stock control cards maintained to suggest that stocktakes were conducted.

### **Audit Qualification of Opinion**

In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs above;

- (a) the financial statements of the Kokopo/Vunamami ULLG for the year ended 31 December, 2011:
  - 1) give a true and fair view of the financial position and the results of its financial operations for the year then ended in accordance with the Finance Instructions; and
  - 2) with exception of the omission of the expenditure from Grant Account into Statement 'K' and the instances of the non-compliance described under Other Matters, the financial statements have been prepared in accordance with the Finance Instructions issued under the *PFMA*.

### **5.3.3.3 Other Matters**

#### **Revenue Management**

There was a shortfall of K559,810 in revenue collections for the year. The shortfall in revenue collections were noted in respect of nine internal revenue sources with material amounts recorded under Service Fees (K173,073), Licensing Fees (K174,912), Land Tax (K93,024), Head Tax (K33,705) and Former Years Appropriation (K33,769) respectively.

#### **Advances Management**

The Advances Register show K79,530 in advances paid to officers as outstanding unacquitted advances as at 31 December 2011.

#### **Casual Employees Wages**

Casual employees were observed to be employed on an ad-hoc basis. There was no consistency in the number of casuals each fortnight, while the casuals on strength per the approved ceiling were not available. Proper maintained personal files with records of dependents, tax, if necessary, and other important personal information was lacking.

### **Payment of Accounts**

- Claims were processed and paid without evidence of obtaining the three required verbal and/or written quotations from suppliers to determine the most economical prices for the required goods and services;
- Payments totalling K79,549 were not certified to determine the legitimacy of the expenditures incurred prior to processing payment of the claims; and
- Payments relating to the hire of trucks for removal of rubbish within Kokopo town were not justified or not supported with any contract documents.

#### **5.3.3.4 Management Response**

Management had not responded to my Audit Management Letter queries. Consequently, I was not advised of any improvement at the time of preparing this Report.

#### **5.3.3.5 Status of Financial Statements**

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

### **5.3.4 Rabaul Urban Local-level Government**

#### **5.3.4.1 Introduction**

The Rabaul Urban Local-level Government (ULLG) submitted its financial statements for the year ended 31 December 2011. Field work associated with audit of the accounts and records was completed with the Management Letter issued and the audit opinion report also issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and control environment.

#### **5.3.4.2 Financial Statements – 2011**

My report to the Minister for Inter-Government Relations and Minister for Finance under Section 113 (8b) of *the Organic Law* on the Rabaul ULLG's financial statements for the year ended 31 December 2011 was issued on 27 May 2014. The Report was a Qualified Audit Opinion.

#### **“Basis for Qualified Opinion”**

##### **Debtors**

The Debtors opening balance of K207,645 was reduced by K39,260 to K168,385 as at 31 December 2011. However, the related records such as the updated individual ledgers and evidence of recovery actions taken by the management to recoup long outstanding debts were not provided and as such, I was unable to establish the basis for the reduction.

##### **Assets**

Appendix 4 showed a total value of assets as K2,803,915 at year end with no indication of any additional or disposal of assets during the year. There were differences on the total value of assets disclosed by the Rabaul ULLG register showing a total of K2,764,487 and the register maintained by Rabaul District Treasury Office showing a total of K1,866,209. Due to the lack of adequate controls over the management of assets, I was unable to establish the total value of assets owned and in the custody of the Rabaul ULLG as at 31 December 2011.

## Revenue

A total of K572,479 was noted under the internal revenue collection

## Payment of Accounts

- Payment vouchers were not adequately maintained and filed in order of number sequence for ease of reference to users;
- Claims were processed and paid without evidence of obtaining the required three verbal and/or written quotations from suppliers to determine the most economical prices for the required goods and services; and
- There were instances of payments not approved by the District Treasurer as the financial delegate prior to processing payment of the claims.

## Audit Qualification of Opinion

In my opinion, except for the effects of the matters described in the qualification paragraphs above, the financial statements of the Rabaul ULLG for the year ended 31 December 2011;

- (a) give a true and fair view of the financial position and the results of its operations for the year then ended in accordance with the Finance Instructions; and
- (b) With exception of instances of non-compliance described under Other Matters, the financial statements have been prepared in accordance with the *PFMA*.

### 5.3.4.3 Management Response

Management had not responded to my Audit Management Letter queries. Consequently, I was not advised of any improvements at the time of preparing this Report.

### 5.3.4.4 Status of Financial Statements

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

## 5.3.5 Gazelle Restoration Authority

### 5.3.5.1 Introduction

The Authority was established by the *Gazelle Restoration Authority Act 1995* following the volcanic destruction of Rabaul and the surrounding areas. The Authority is responsible for cleaning up tasks, restoration of essential services in the affected areas and replacement of infrastructures. Program activities have been financed through funding arrangements with the International Bank for Reconstruction and Development (IBRD), European Union (EU) and partially through AusAID.

The Gazelle Restoration Authority submitted its financial statements for the year ended 31 December 2012. Field work associated with audit of the accounts and records was completed with the Management Letter issued and the audit opinion report issued to the Ministers concerned.

### **5.3.5.2 Financial Statements – 2012**

My Report to the Minister for Inter-Government Relations and Minister for Finance under Section 16(3C) of the *Audit Act* on the Gazelle Restoration Authority's financial statements for the year ended 31 December 2012 was issued on 12 May 2014. The Report was an unqualified audit opinion, but had an Emphasis of Matter.

#### **“Emphasis of Matter”**

I draw attention to Note 9 in the financial statements which indicates the Authority incurred a net loss of K576,179 during the year ended 31 December 2012 and, as of that date, the Authority's current liabilities exceed its total assets by K576,179. This, along with the other matters as described in Note 1(b) indicate the existence of a material uncertainty that may cast significant doubt about the Authority's ability to continue as a going concern.

### **5.3.5.3 Management Response**

The Authority had responded to my Management Letter queries stating that it had taken note of the audit observations and made relevant adjustments to the affected balances in the financial statements. At the time of preparing this Report however, the amended financial statements had not been provided.

### **5.3.5.4 Status of Financial Statements**

At the time of preparing this Report, the Gazelle Restoration Authority had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

## 5.4 EAST SEPIK PROVINCE

### 5.4.1 Introduction

The report on the East Sepik Province covers the audit of the accounts and records of the East Sepik Provincial Government, the Wewak General Hospital Board and Wewak Urban Local-level Government. The reports cover the financial years ending 31 December 2011 and 2012 for the Provincial Government, 2011 for Wewak General Hospital Board and 2011 interim audit for Wewak Urban Local-level Government respectively.

### 5.4.2 East Sepik Provincial Government

The East Sepik Provincial Government submitted its financial statements for the financial years ending 31 December 2011 and 2012. Field work associated with audit of the accounts and records were completed with the Management Letters issued and the audit opinion reports were issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and the control environment.

#### 5.4.2.1 Financial Statements– 2012

My reports to the Minister for Inter-Government Relations and Minister for Finance respectively under Section 113 (8a) and (8b) of the *Organic Law* on the financial statements of the East Sepik Provincial Government for the years ended 31 December 2011 and 2012 were issued on 7 May 2014 and 3 June 2014 respectively. These reports contained similar Disclaimer of Opinions, hence only the 2012 report is reproduced as follows.

#### “Basis for Disclaimer Opinions

##### 1. Presentation Errors

I observed the following errors in the presentation of the financial statements which therefore, render the financial statements presented for the year ended 31 December 2012 inaccurate and misleading to its users:

- The Financial Statement did not present the Provincial Governor’s statement on the budget performance of East Sepik Provincial Government for the year ended 31 December 2012 while the Statement presented by the Provincial Administrator in relation to financial performance for the year was not signed accordingly;
- Statement ‘A’ which is the statement of Provincial Account Balances was not signed by the Provincial Administrator and Provincial Treasurer as confirmation of completeness and accuracy of the closing cash balances as at 31 December, 2012;
- There was error in the presentation of the Statements namely, the amounts disclosed in Statements ‘A’, ‘B’, ‘D’, ‘E’, ‘F’ and ‘H’ as well as the balances shown in Notes 3, 4, 6, 7, 10 and 17 to the accounts in Statement ‘A’ were presented in ‘thousands’ instead of the original amounts. These errors constitute a material effect on the balances disclosed in financial statements; and
- The financial year of reporting reflected in the column a heading of Statement ‘C’ was incorrectly shown as 2011 when it should be 2012.

##### 2. Cash Balances

I noted errors on the Provincial Account Balances presented in Statement ‘A’ arising from material omissions and misstatements on related statements and the corresponding

books and records. Consequently, I was unable to express an opinion on the accuracy of the cash balances and the financial position of the East Sepik Provincial Government as at 31 December 2012 due to the following reasons:

- The East Sepik Provincial Government reconciled cash balances of K60,734,238 in Note 6.1 to the accounts in Statement 'A' included the cash balances of K3,258,152 and K8,148,655 relating to Stormwater Drainage Project Account and Marienberg College Account respectively. I observed that these accounts were not reconciled for the 2012 financial year which affects the accuracy and reliability of the Provincial Account Balance as at 31 December 2012; and
- The Provincial Revenue Fund balance of K36,592,474 reflected in Statement 'A' could not be confirmed as correct due to errors and material misstatements effecting the accuracy and reliability of the operating surplus disclosed in the summary statement of revenues and expenditures (Statement 'B').

### **3. Receipts and Payments**

Statement 'B' showed total revenue of K139,960,859 against total expenditure of K103,312,079 and net operating surplus of K36,648,780. I was however, unable to confirm the accuracy and therefore, the liability of the revenue and expenditure statement balances and therefore, the accuracy and reliability of the summary statement balances due to the following reasons:

- The revenue and expenditure component of the Teaching Services Commission and East Sepik Provincial Administration Staffing Grants reported in the revenue and expenditure statements as K66,787,774 were not taken up in the revenue and expenditure ledgers as these were provided for in the Annual Appropriation Act;
- The Provincial Support Grant (PSG) component of K250,000 was not accounted for under the recurrent votes however was receipted to and expended from the Trust Fund Suspense Account (360/31). As a result, the receipts and expenditure balances had not been reflected in Statements 'J' and 'K' respectively and as such affects the year end totals of these Statements with consequent effects to Statements 'B' and 'A'; and
- Substantial numbers and amounts of reconciling items of revenue and expenditure for the Provincial Government Operating Account and Provincial Government Grant account were not adjusted in the cashbook and posted to respective revenue and expenditure ledgers with consequent effects on the disclosures in Statements 'J', 'K', 'B' and 'A'.

### **4. Investments**

The Provincial Government reported shareholding investments of 2,000,000 shares with South Seas Tuna as at 31 December 2012. However, perusal of records showed the Provincial Government held only 734,618 shares under a Trustee arrangement. In the absence of adequate confirmation, including the investment register and related share certificates, I am unable to confirm the accuracy, existence, ownership and value of investments held by East Sepik Provincial Government as at 31 December 2012.

### **5. Borrowings**

The East Sepik Provincial Government had borrowed K400,000 with monthly interest charges of 1% from Sepik Savings and Loans dating back to 2005. However, Statement 'H' showed an opening balance of K228,000, repayments of K100,000 and a closing balance of K128,000 as at 31 December 2012. In the absence of adequate confirmation,

including the Register of Borrowings and related repayment records, I was unable to confirm the accuracy and status of the borrowed funds at year end.

## **6. Assets**

Appendix 4 to the Financial Statements did not disclose any information or value of fixed assets as at 31 December 2012 due to inadequate maintenance of the asset registers and incompleteness in recording detailed information of these assets. Consequently, I was unable to ascertain the value of fixed assets owned and under custody of the East Sepik Provincial Government.

## **7. Advances**

I observed lack of proper recording, monitoring and recovery exercises on travelling allowances and cash advances resulting in amounts totalling K7,293,025 dating back to 2008 being unacquitted as at 31 December 2012. Consequently, I am unable to rely on the completeness and accuracy of total unacquitted advances of K7,293,025 disclosed at year end.

### **Disclaimer of Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and accordingly, I am unable to express an opinion on the East Sepik Provincial Government financial statements for the year ended 31 December 2012.”

#### **5.4.2.2 Control Environment**

### **1. Corporate Governance**

#### Corporate Plan

The East Sepik Provincial Government’s four year Corporate Plan 2009 to 2012 had lapsed at the end of 2012. The Corporate Plan focused on addressing six Key Result Areas where the Public Service of the Province was required to exercise leadership and competence in its implementation in order to meet the expectations and needs of the people of the Province.

I was not able to determine whether or not the Provincial Administration had conducted reviews to assess and evaluate the implementation and achievements of its goals and objectives based on each of the Key Result Area as set out in the Corporate Plan. However, my review of the accounts and records had identified two of the Key Result Areas which the Provincial Administration had not achieved the desired output were in relation to Budgeting and Financial Management and Physical Assets Management.

#### Work of Internal Audit

The Internal Audit Unit had not provided internal audit reports for my review. It had been inactive in performing its roles and responsibilities by conducting reviews of controls on the accounts and records and financial operations of the Provincial Government.

### **2. Budget Management**

The Provincial Government had not exercised proper budgetary controls resulting in funds totalling K36,402,051 that had not being utilised and remained as unspent funds at



year end. Also, I observed there were disagreements in the initial appropriation amounts noted between the budget document and posting of appropriations appearing in the expenditure ledgers. Furthermore, there were numerous instances noted whereby the Provincial Government charged expenditures to vote items for which funds had not been appropriated for the intended purposes.

### **3. Revenue Management**

The Provincial Government fell short to collect revenue totalling K3,456,038 under seven internal revenue sources. Also, the Provincial Government did not maintain proper debtor ledgers or registers and related records.

### **4. Grants and Subsidies**

Payments of grants and subsidies and financial assistances totalling K1,578,335 by the Provincial Government during the year to non-profit organisations, public authorities and individuals lack evidence of accountability reports by recipients, nor were there records to indicate that the Provincial Government had sought these reports.

### **5. Payment of Accounts**

- Payments of recreation leave fares were drawn in the name of officers concerned instead of the airline companies. There were also instances noted where leave fares for dependent children over the age of eighteen were claimed contrary to and in breach of Section 14 of the Public Service General Orders; and
- Payments for goods and services were inappropriately made from the Trust Fund Suspense Account contrary to the Trust Fund Instrument.

#### **5.4.2.3 Management Response**

Management had not responded to the matters raised in my Audit Management Letter queries. Consequently, I was not advised of any improvement at the time of preparing this Report.

#### **5.4.2.4 Status of Financial Statements**

At the time of preparing this Report, the East Sepik Provincial Government had not submitted its financial statements for the year ended 31 December 2013 for audit.

### **5.4.3 Wewak General Hospital**

#### **5.4.3.1 Introduction**

Wewak General Hospital was established under the *Public Hospitals Act*. The relevant Sections of the Act as well as the *PFMA* require the Hospital Board to submit its financial statements. Relevant Sections of the *Public Hospitals Act* and the *Audit Act* require the accounts and records to be audited by the Auditor-General and to be reported accordingly to the Minister responsible.

#### **5.4.3.2 Financial Statements – 2011**

My report to the Ministers for Health and Finance respectively under Section 8 (4) of the *Audit Act* on the financial statements of the Wewak General Hospital for the year ended 31 December 2011 was issued on 27 May 2014. The report was a Disclaimer of Opinion.

## “Basis for Disclaimer of Opinion”

### 1. Presentation and Disclosure Errors

Finance Instruction 02/2004 issued under Section 117 of the *PFMA* state the prescribed format for the preparation and presentation of the financial statements for Non-Trading Public Bodies. The 2011 financial statements for Wewak General Hospital did not contain the following:

- Declarations or Statements by the Chairman of the Hospital Board and Chief Executive Officer on the overall performance of the hospital during the year;
- Statements of Receipts and Payments of the Operating Account and Hospital Fees Trust Account;
- Consolidated Statements of Accumulated Funds of the Operating Account and Hospital Fees Trust Account;
- Accounting Policies and Explanatory Notes to the financial statements; and
- Schedules of Capital Assets and Liabilities.

Consequently, the financial statements were not presented in the format required by the Finance Instructions.

There was a limitation of scope arising from material misstatement of cash balances due to inadequate maintenance of proper cashbooks and relevant ledgers, delays in compiling monthly bank reconciliations and errors and omissions of receipts and payments in the Operating and Hospital Fees Trust Accounts thus, resulting in reconciling differences with the bank balances. The Hospital had also not submitted its financial statements for the years ended 31 December 2009 and 2010 and therefore, I was unable to verify the accuracy of the consolidated opening balance reported as K2,109,017. Consequently, I was unable to verify the accuracy of the consolidated closing fund balance of K2,253,780 represented by closing cash balances of K1,819,851 and K433,930 as reported for the Operating Account and Hospital Fees Trust Account respectively.

Wewak General Hospital did not maintain an Assets Register to account for all assets purchased, donated or transferred during the interception of Hospital Boards by virtue of the *Public Hospital Act*. In the absence of the Assets Register and lack of appropriate information provided on all assets of the hospital, I am unable to verify the completeness, existence and value of all fixed assets owned and in the custody of the Hospital at year end;

### Disclaimer of Opinion

Because of the significance of the matters described in the basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and consequently, I was unable to express an opinion on the Wewak General Hospital financial statements for the year ended 31 December 2011.

#### 5.4.3.3 Control Environment

##### 1. Expenditure Control

- I was not provided with sufficient and appropriate documents in support of the total expenditure presented in the financial statements. There was limitation of scope on the payment of accounts due to significant discrepancies noted with the procurement processes and procedures and incorrect and inappropriate payments

made from the Hospital Fees Trust Account not in accordance with the Trust Instrument; and

- The Appointment Instrument of all Financial Delegates including Section 32 Officers and their specimen signatures were not made available for my examination.

## **2. Advances Management**

Proper controls were lacking over the management of advances paid during the year and prior years and as such, I was not able to ascertain the total number and value of outstanding advances as at 31 December 2011.

### **5.4.3.4 Management Response**

Management had not responded to my Audit Management Letter queries. Consequently, I was not advised of any improvement at the time of preparing this Report.

### **5.4.3.5 Status of Financial Statements**

At the time of preparing this report, the Wewak General Hospital had not submitted its financial statements for the years ended 31 December 2012 and 2013 for audit.

## **5.4.4 Wewak Urban Local-level Government**

### **5.4.4.1 Introduction**

The Wewak Urban Local-level Government (ULLG) had not submitted its financial statements for the years ended 31 December 2009, 2010 and 2011 respectively. However, interim field work associated with the audit of the accounts and records for the year ended 31 December 2011, without the financial statements, was undertaken and completed with the Management Letter issued accordingly. The paragraphs below detail issues identified with the control environment.

### **5.4.4.2 Control Environment**

#### **1. Corporate Governance**

Wewak ULLG did not have in place a Corporate Plan that sets out its long-term objectives, priorities and targets taking into consideration the requirements of its stakeholders and the needs of the communities it serves.

#### **2. Budget Management**

The controls exercised over the usage and management of allocated funds was lacking due to delays in the release and posting of funds released through Cash Fund Certificates. As a result, recurrent expenditures totalling K394,909 were paid out of trust funds and these expenditures were not committed and processed through the Provincial Government Accounting System (PGAS).

#### **3. Revenue Management**

There was a shortfall of K1,552,244 in revenue collections for the year. I observed there were weaknesses and breakdown of controls resulting in delays in accounting and posting of revenue collections to the cashbook and revenue ledgers. The collector's statements and revenue ledgers revealed revenue collections totalling K43,120 for the year ended 31 December 2011 that had not been accounted for.

#### **4. Cash Management**

The bank reconciliation statements of the Wewak ULLG Operating Account showed reconciling items from current and prior years that had not been identified, adjusted in the cashbook and posted to the appropriate revenue and expenditure ledgers which impact on the accuracy of revenue, expenditure and cash balances reported at year end.

#### **5. Procurement and Payment Procedures**

I observed weaknesses and breakdown of internal controls exercised over procurement and payment procedures resulting in extravagant payments and misapplication of funds. For example, payments totalling K15,000 were paid to individuals as financial assistances and K114,600 also paid to individuals for services rendered without evidence of proper authorisation and appropriate supporting documentation.

#### **6. Advances Management**

Wewak ULLG lacked proper monitoring and recovery processes on travelling allowances and cash advances totalling K61,940 paid to officers dating back to 2008 that had not been acquitted as at 31 December 2011. I also observed instances of payments of fresh advances totalling K41,509 to officers whilst their first advances remained unacquitted.

#### **7. Assets**

The Wewak ULLG did not maintain an Assets Register to account for all assets purchased during the year and prior years. In the absence of an Assets Register and lack of appropriate information provided on all fixed assets, I was unable to ascertain the completeness, existence and value of all fixed assets held under ownership of Wewak ULLG at year end.

#### **Management Response**

Management had not responded to my Audit Management Letter queries. Consequently, I was not advised of any improvement at the time of preparing this Report.

#### **5.4.4.5 Status of Financial Statements**

At the time of preparing this Report, the Wewak ULLG had not submitted its financial statements for the years ended 31 December 2009 to 2013 for my audit inspection.

## **5.5 EASTERN HIGHLANDS PROVINCE**

### **5.5.1 Introduction**

Eastern Highlands Provincial Government, Goroka Urban Local-level Government, Goroka General Hospital and Provincial Government Business Arms are audited every year, with or without financial statements. Other Local-level Governments (LLGs) and the Business Arms of the Governments could not be audited due to manpower and financial constraints faced by my Office and the lack of records and support from the respective Governments.

### **5.5.2 Eastern Highlands Provincial Government**

#### **5.5.2.1 Financial Statements – 2013**

The interim audit of 2013 accounts and records was completed without financial statements. The control environment issues are common from 2011 to 2013 years; therefore, I am reporting only 2013 findings. The 2011 and 2012 audits with financial statements were completed and the audit opinion reports were issued to the ministers concern. The two years audit reports were disclaimed with common issues for both years, therefore only 2012 audit findings are reported under the financial statements below.

#### **5.5.2.2 Control Environment**

Significant internal control weaknesses were identified in 2011, 2012 and 2013 which are common in nature, therefore only 2013 weaknesses are reported.

##### **1 Corporate Governance**

The Provincial Government had a Corporate Plan that covers the period from 2006–2009 had expired. The new Corporate Plan has been completed but was not officially launched. I was not provided a copy for audit. Based on the Disclaimer of Audit Opinions on the Financial Statements and the control environment issues raised to date, the Key Result Areas (KRA) of 2006 – 2009 Corporate Plan were not successfully implemented. Those were Financial Management, Asset Management, Human Resources, Information Technology and Risk Management.

##### **2 Work of Internal Audit**

No audits were undertaken in 2013. The audits completed prior to 2013 were: Asaroka High School, Eastern Highlands Provincial Government (EHPG) Revenues, Provincial Education Division, Goroka Urban LLG and EHPG Development Project (2006-2008). Evidence of any actions taken by the management with these reports was not sighted.

Staffing in the Internal Audit Unit is inadequate. The unit needs to be properly resourced with adequate manpower; funding and equipment for it to perform effectively.

##### **3 Appropriation and Budget Management**

The Provincial Government appropriated a budget of K253,832,200. Budgetary results at year end revealed a shortfall in revenue by K140,837, 30 and under expenditure by K157,745,032. The Provincial Government did not obtain data from the central agencies like the Department of Finance or fully accounted for its funds, and as a result it could not reconcile the differences disclosed. A significant amount is to do with the public servants and teachers salary receipt and payment.

## 4 Revenue and Receivables

Proper documented guidelines, policies and procedures were not in place within the different revenue collection areas to enable them to be effective. Significant improvements were made in Goods and Services Tax, hospital fees, liquor license fees, provincial livestock and office rentals. However, there was still a significant shortfall in residential rentals, project tendering fees, motor vehicle registration, book makers and sale of assets. The division lacked adequate resources, such as appropriate personnel, office equipment and working furniture, for its effective operation.

## 5 Procurement Procedures

### Provincial Supply and Tenders Board

The instrument establishing the Provincial Supply and Tenders Board (PSTB), meeting minutes and resolutions of meetings convened by the Board during the year and registers maintained to record all tenders invited, quotations received, contracts awarded and certificates of inexpediency issued were not provided for my examination.

### Paid Accounts

Examination of selected payment vouchers to ensure compliance with the financial instructions contained in the Financial Management Manual revealed the following anomalies:

- Twenty-five payments vouchers totalling K2,670,655 were not provided for my examination;
- No contract agreements were sighted for minor capital works and maintenance expenditure totalling K1,194,417; and
- One hundred and fifty six instances where reimbursements of personal expenses totalling K302,431 were approved for payment, however prior approval of such commitments and in most instances lack of proper documentation to confirm the validity of the expenses incurred,

### Private Vehicle Hire

Total expenditure on hire of private vehicles analysed during the year amounted to K493,696. The Financial Management Manual relating to procurement procedures for private vehicle hire had not been followed in many ways. There was no centrally controlled management and monitoring of hire of private vehicles by the provincial administration. There were instances of written quotations not being obtained and lacking supporting documents.

## 6 Cash Management

### Cash Balances

Examination of cashbooks, bank accounts and bank reconciliations statements with the related records revealed that:

- Bank Reconciliation Statements for the Grant and the Internal Revenue Accounts revealed a number of significant reconciling items totalling K86,702,439 that related to previous as well as the current years that had not been cleared as at 31 December 2013. The outstanding reconciliation items should be identified and cleared promptly in order to maintain a reliable cashbook balance at any given point in time.

Bank reconciliation not promptly undertaken poses a risk of fraudulent activities and distorts the cashbook balance.

### Grants and Subsidies

Examination of the expenditure ledgers from both National and Provincial accounts revealed that grants totalling K15,772,840 were paid to various recipients. Local-level Governments do provide accountability reports through their financial statements. However, it is not known how the other (individual and non-profit organisation) grant recipients provide their expenditure reports to the Provincial Government.

### Goroka Market Development

I noted payments totalling K7,000,000 was paid to 'Goroka Market Development Fund' on cheque numbers 128181, 128180 and 128178 respectively. My queries as to whether Goroka Market Development Fund was a trust fund and the financial and physical report had not been provided at the time of this Report.

## **7 Asset Management**

### General Assets

A review of the procurement of assets, the maintenance of asset registers and control practices revealed the following weaknesses:

- The Financial Management Manual requires assets registers to be maintained under the following classifications: land and building; furniture and fitting; office equipment; motor vehicles; marine vessels; plant and machinery; and tools and equipment. These requirements had not been fully complied with by the Government in a centralised and coordinated manner; and
- The Provincial Government had not been updating its Asset Register at the time of audit; therefore it was not given for audit examination. As such assets purchased during the year totalling K3,264,135 could not be verified against the register.

### Motor Vehicles

In the absence of an updated vehicle register, I could not ascertain the number and the type of vehicles owned by the Government. I had noted the following weaknesses in the control procedures:

- No proper log books had been maintained to record the usage of vehicles on a daily basis;
- Maintenance of vehicles had been done on ad-hoc basis by various auto-repairs without proper control;
- Fuel was at times purchased by cash, by advance payments and by credit arrangements. I did not observe any control procedures in place in terms of authorisation, monitoring of vehicle usage, fuel consumption and method of payments.

A proper policy guideline should be made to effectively manage the Government vehicles.

## **8 Trust Account Management**

The Trust Fund balance totalling K222,236 could not be verified against the underlying accounts and records. The same figure was disclosed in the 2011 and 2012 financial

statements. My previous Report on the errors and inconsistencies on the trust account balances had not been adjusted.

## **9 Human Resource Management**

Examination of the payrolls for both the national and provincial and the personal files revealed the following shortcomings:

- The Provincial Government recent restructure saw 869 approved positions to be funded. However, only 65 employees had been confirmed to positions and the rest were unattached at the time of audit in April 2014. Phase two of the recruitment process was in progress to confirm officers to positions; and
- At the time of audit, a complete salaries and wages expenditure report had not been provided for audit examination. The report was compiled only up to pay number 15 with a total expenditure of K3,381,324. Pay numbers 16 to 26 had not been included due to payroll information not received from Finance payroll. The staffing grant appropriation was K13, 62,300 for the year 2013.

### **5.5.2.3 Status of Financial Statements**

The financial statements for the year 2013 had not been submitted when this Report was developed. The financial statements for 2011 and 2012 were submitted and audits completed. The audit report for each year was produced and submitted to the Ministers and bodies required the *Organic Law*.

### **5.5.2.4 Financial Statements – 2011 and 2012**

The 2011 and 2012 audits with financial statements had been completed and the audit opinion reports were issued to the Ministers concerned and the bodies required under section 113 of OLPLLG. The two years audit reports were disclaimed with common similar issues for both years, therefore only 2012 audit findings are reported below.

The financial statements for Eastern Highlands Provincial Government were submitted. The field audit was completed and the Management Letter issued was not responded to. My report to the Ministers and other relevant bodies under the *Organic Law* was issued in April 2014. The report was a Disclaimer of Opinion as summarised below.

#### **“Basis for Disclaimer Opinion**

##### **Presentation of Financial Statements**

There was improvement in the presentation and disclosures of the 2012 financial statements and as a result figures from ledgers were correctly shown in the trial balance and the related statements. However, a number of these balances could not be verified against the underlying accounts and records as stated below.

##### **Cash Balances**

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of the Eastern Highlands Provincial Government as at 31 December 2012 due to the following reasons:

- The cash balance in Statement ‘A’ should be verified to the bank accounts and the cashbooks reconciled balances as at 31 December 2012 for the accounts operated by the Provincial Government. My examination of the grant and the internal revenue accounts revealed a significant amount of K68,975,752 remains to be reconciled between the two records. Previous years reconciling items were still



outstanding at the time of audit. As such, the fund balance of K5,894,461 had been significantly distorted and could not be confirmed;

- The Trust Fund balance totalling K222,236 could not be verified against the underlying accounts and records. The same figure was disclosed in the 2011 financial statements. My previous report on the errors and inconsistencies on the trust account balances were not adjusted; and
- The bank balance of K5,894,461 agreed to Note 6.1 to the accounts. However negative K398,354 in Note 6.1 described as 'other accounts' could not be verified to the source records and the same figure was disclosed in the 2011 financial statements. It appears this figure had been used as carried forward balancing figure to balance Statement 'A',

### **Receipts and Payments**

I was unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the operating surplus of K1,806,603 in Statement 'B' and the related Statements 'J' and 'K' due to un-reconciled items reported under cash balances above. Therefore, the cashbooks, ledgers and subsequently financial statements, particularly statement 'A', 'B', 'J' and 'K' had not been updated to determine the correct receipts, payments and the closing balance for the year 2012.

### **Assets**

The value of Assets owned by the Provincial Government at the end of the year had not been disclosed in Appendix 4 as is required. However, assets totalling K1,512,335 purchased during the year were not recorded in the asset register. In the absence of a complete assets register and annual stock-takes, I was unable to confirm the completeness and value of assets owned by the Eastern Highlands Provincial Government as at 31 December 2012.

### **Advances**

Appendix 6 of the financial statements showed un-acquitted advances but did not summarise to get a total. I could not properly trace outstanding advances from the register to Appendix 6 due to no advance register was provided. My examination revealed a total of K1,998,048 was taken but could not determine how much was acquitted. As such, I could not confirm the correct amount of un-acquitted advances.

### **Disclaimer of Audit Opinion**

Because of the significance of the matters described above, I am not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of the Eastern Highlands Provincial Government for the year ended 31 December 2012.”

## **5.5.3 Goroka Urban Local-level Government**

### **5.5.3.1 Introduction**

The audit of the Goroka Urban Local-level Government (ULLG) Financial Statements for the year ended 31 December 2011 was completed. The Management Letter issued to the ULLG was not responded to at the time of preparing and finalising this Report. The audit opinion is yet to be issued. My Report contained a number of issues relating to control environment weaknesses which are summarised in the paragraphs below.

### **5.5.3.2 Control Environment**

#### **1. Corporate Governance**

Goroka ULLG did not have a Corporate Plan in place at the time of my audit review. Despite my recommendations since 2006, no actions had been taken nor any deliberations made up until the time of this Report. Without a Corporate Plan, the Goroka ULLG budget lacks direction and guidance; and annual budgets are not formulated with an intention to achieve corporate goals set down in the Corporate Plan.

#### **2. Work of Internal Audit**

No Internal Audit Office (IAO) had been set up by the Goroka ULLG. There was no internal audits report provided, if any were undertaken by the IAO of the Eastern Highlands Provincial Government into the routine operations of the Local-level Government.

#### **3. Appropriation and Budget Management**

The Goroka ULLG had appropriated for revenue and expenditure of K2,825,000 for the year 2011. Actual revenue was K2,027,410 resulting in a significant shortfall of K797,590 under internal revenue while actual expenditure was K1,982,555 resulting in a shortfall of K842,445 which implies that either the revenue and expenditure estimates were unrealistic or the ULLG had not implemented effective revenue collection measures and also not fully implemented its expenditure budget. Furthermore, the ministerial approval of the budget was not sighted and quarterly budget reviews were not conducted during the year.

#### **4. Revenue and Receivables**

My review of the revenue records and controls relating to revenue of the ULLG revealed the following:

- No client registers or ledger cards had been maintained manually at different revenue generating centres to record individual client details to monitor billings, collections and debtor's arrears;
- A computerised system is currently used for water rates, land rates and other municipal services. Functions of monitoring the client database, billing, collecting and issuing credit notices are performed using the system. The system has some limitations as well as benefits. Limitations include: an inability to generate a complete client listing with annual applicable rates for each item of revenue, making it impossible to compute potential revenue due and that what was due to be collected, was actually collected. The system also does not facilitate data backup for offsite storage. This exposes Goroka ULLG to risks of permanent data loss if any form of disaster occurs to the computers;
- The Goroka ULLG did not have a complete list of title holders of all state land in the township of Goroka. No supporting documentation was available to confirm that the ULLG complied with my recommendations in previous Audit Management Letters to take this matter up with the Department of Lands and National Housing Corporation. This was necessary to identify the title holders that will enable Goroka ULLG to bill actual property owners instead of tenants who sometimes move locations regularly to avoid paying rates; and
- The latest land valuation report from the Department of Lands was not available therefore, old rates were used.

I noted from available records that a sum of K8,251,967 was outstanding from debtors as at 31 December 2011. There were no debtors ledgers provided for my examination. As such, I cannot confirm the accuracy of the total amount of outstanding monies due from debtors of the ULLG as at 31 December 2011.

In the absence of the internal revenue controls noted above, I could not ascertain whether potential revenue due to be collected from all sources were effectively and completely collected intact.

## **5. Procurement Procedures**

The following issues were noted on procurement procedures and payment of accounts:

- Payments totalling K146,522 had been made as financial assistances, funeral expenses and various other related expenses. However, there was no follow-up by the ULLG on the recipients of these payments to ensure monies had been expended on the purposes intended and acquitted;
- A total of K134,688 had been paid to individuals for the town beautification and cleaning activities. However, in the absence of completion reports for these payments, I was unable to ascertain if these payments had been expended on the town beautification and cleaning activities; and
- There was no control and monitoring of fuel obtained from the service stations supported by reconciliations and acquittals of fuel monies paid to fuel suppliers. As such, I was unable to confirm if only the vehicles of the ULLG had access to the fuel for official purposes only.

## **6. Cash Management**

Examination of cashbooks, bank accounts and bank reconciliations statements with the related records revealed the following findings:

- The bank reconciliations as at 31 December 2011 showed that there was a total of K48,048 disclosed as outstanding deposits in Schedule 1. It indicated that money had been collected, however, not all cash was banked which resulted in the understatement of revenue to that extent; and
- Direct deposits disclosed in Schedule 7 totalling K7,419 were mostly direct deposits of cash and cheque from the financial year that were never cleared.

Audit inspections on Goroka Town Sewerage Upgrade Project Account and related documents revealed that the total funds released to the account as per the cashbook as at 31 December 2011 was K1,810, 00 and the total expenditure was K1,427,562 with the reconciled cashbook amount of K382,438. The following related matters were noted:

- No trust instrument had been sighted;
- The project account had not been consolidated in the 2011 financial statements;
- The cashbook was maintained manually through Microsoft Excel and posed a great risk of manipulation of data. All related records such as bank statements, cashbook and bank reconciliation were not in order and some were missing; and
- Payment vouchers were not properly filed therefore limited further testing was possible on expenditure.

I was unable to ascertain if the total travel and cash advances amounting to K84,977 paid in 2011 as per the expenditure ledgers were recorded in the advances register and acquitted.

## **7. Asset Management**

Appendix 4 of the Financial Statements showed a 'Nil' report on Assets which indicates that there were no assets purchased during the year and previous years. However, the manual asset register sighted recorded only a dump truck purchased at a cost of K82,000. No periodical stocktake of assets were conducted. Consequently, I am unable to ascertain the existence, custody, condition and value of assets of the ULLG as at 31 December 2011.

### **5.5.3.3 Status of Financial Statements**

The financial statements for 2012 and 2013 have not been received at the time of writing this report in July 2014.

## **5.5.4 Goroka General Hospital**

### **5.5.4.1 Introduction**

The audit of the 2011 financial statements, accounts and records had been completed but the Management Letter issued to Management was not responded to. The paragraphs below detail the issues identified with the financial statements, accounts and records of the Hospital.

### **5.5.4.2 Financial Statements– 2011**

My report to the Ministers for Health, the Treasury and the Finance respectively under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Hospital for the year ended 31 December 2011 was issued in June 2014. The report was a Qualified Audit Opinion.

The Goroka General Hospital Financial Statements for the year ended 31 December 2011 complied with the requirements of Finance Instruction 2/2004 except for the Consolidated Summary Statements of Revenue and Expenditure which was not presented with the explanatory notes.

### **5.5.4.3 Control Environment**

There were internal control weaknesses identified in the accounts, records and processes as follows:

#### **1. Corporate Governance**

Goroka General Hospital held a total of nine Board meetings in 2011 and resolutions had also been noted. However, important issues of concern were noted below:

- Most of the Hospital Board Meeting Minutes and Resolutions passed were not formally signed which could render resolutions invalid; and
- In meetings No. 41157, 41158 and 41160 held during the year, it was noted that a local contractor who had been engaged to do maintenance works in the general ward of the hospital worth K317,000 had submitted a variation of K242,000. This was assessed by the Board to be excessive. The value was reassessed by experts to K144,000 but the contractor had disagreed and demanded the hospital to pay them K164,000. This created a lot of confusion and such conflicts could hinder the progress of the project. Management needs to review its tendering and variation clause in the contract agreement in future.

## 2. Work of Internal Audit

No internal audits were undertaken on the accounts of Goroka Hospital. National Department of Health is responsible for the internal audit of the hospital, however, during 2011 there were no audits conducted to ensure that the control mechanisms instituted were operational and effective.

## 3. Revenue and Receivables

Examination of revenue balances and records revealed the following findings:

- Deposits had been delayed for a minimum of two days to a maximum of 26 working days are not acceptable as cash is vulnerable to theft and misuse. This included a total of K15,143 for the collections from the dates of 16-30 June 2011 being held for 26 days for unknown reasons and later deposited on 18 July 2011; and
- The Officer in Charge of revenue was requested on a number of times to provide monthly till rolls for the year but we were unsuccessful. After consulting the cash officers, I was informed that the till rolls were burned by the OIC of revenue. It was illegal to destroy such government records.

I have noted that revenues deposited in January, June and December 2011 compared against the monthly collection register had revealed the following serious issues:

- In January 2011, K27,637 had been recorded on the monthly collection register but the deposit records showed K20,590 which means the balance of K7,047 had not been deposited and could have been either stolen or missing; and
- For the month of December 2011, there was K21,410 recorded on the monthly collection register but the deposit records showed K17,056 indicating that K4,354 was not deposited and where this may have been stolen or missing.

## 4. Procurement Procedures

Examination of procurements and paid accounts revealed the following:

- Review of documents related to financial delegates showed that procurement procedures were maintained effectively. The Section 32 officers including examining, certifying and approving of claims and payments were diligently performed by different entrusted officers except that the formal appointment instruments by management were not produced to confirm the appointment of the officers;
- I was not able to see birth certificates or concessions for various dependents and/or students under 18 years of age, where several payments totalling K67, 885 were made for recreational leave;
- Expenditures related to capital works during the year revealed no major issues. Major works contracts awarded were seen to be properly tendered; contract agreements signed between contractors while payments have been strictly controlled and contractors were paid on various phases as stipulated in the agreements; and
- A progress report compiled in December 2011 for the year showed the status of each of the twenty-two projects identified for funding. Most of these projects were completed while few had work in progress. Minor works contracts were seen to be properly managed through the Hospital Board as well as the PSTB for those worth more than K300,000. No major issues were noted except that:
  - Additional variations were seen to be submitted on a few instances by contractors which could exhaust funds of the hospital; and

- Project completion reports were not sighted for those that have been completed.

## **5. Cash Management**

Bank reconciliations performed for both the Operating and Fees Trust fund accounts for the year revealed that monthly reconciliations were satisfactorily done. Both bank balances were reported on the financial statements under the statement of accumulated funds.

Examination of cash advance management revealed the following matters:

- Payments totalling K16,886 related to airfares and accommodation were not properly acquitted with boarding passes and ticket butts including receipts from airline and hotel companies respectively;
- A total of K46, 561 comprising of salary and cash advances given to hospital staff had no details to confirm; and
- Outstanding accumulated debtors being brought forward from prior years that could not be recovered should have been written off as bad debts. Management should apply strict regulations not to give out salary advances again to officers who have outstanding advances.

## **6. Asset Management**

Review of asset management revealed the following findings:

- I was informed that no additional purchases or disposals were done during the year hence assets valued at K36,639,126 reported in 2010 financial year would remain unchanged for 2011. However, after analysing the transaction records, additional assets of pressure pumps, printers and other biomedical equipment that were brought during the year had not been captured into the assets register. As such, I was unable to verify the completeness, existence, ownership, accuracy and valuation of fixed assets at year end.

## **7. Human Resource Management**

Review of personnel emoluments revealed the following matters:

- Medical and senior management staff contracts were not updated after they had expired. Of the samples of contract officers that were selected for testing, four contract officers' contracts of three years had been expired but the renewal contracts were not sighted; and
- Three different gratuities paid totalling K16,920 could not be confirmed in the absence of their renewed contract.

### **5.5.4.4 Status of Financial Statements**

The financial statements for 2012 were received and the audit is yet to be done. Financial Statements for 2013 have not been received when this Report was prepared.

## 5.6 ENGA PROVINCE

### 5.6.1 Introduction

The Enga Provincial Government, Wabag Urban Local-level Government, Wabag General Hospital and Enga Children's Fund are audited every year, with or without financial statements. Other LLGs and the Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Governments.

### 5.6.2 Enga Provincial Government

#### 5.6.2.1 2011 and 2012 Accounts

The audits of 2011 and 2012 financial statements, accounts and records were completed and the audit opinion reports were issued to the ministers concern. The two years audit reports were issued with Disclaimer of Opinions' and the internal control issues were common throughout therefore, only the 2012 audit findings are reported in the following paragraphs.

#### 1. Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of the Provincial Government as at 31 December 2012 due to the following reasons:

- The revenue fund balance of K3,999,777 as disclosed in 31 December 2012 could not be confirmed as correct in view of the difference of K538,393 reported in 2011. The December 2010 closing and January 2011 opening balances of the same difference had not been adjusted to reflect the stated revenue fund balance as correct for the year;
- Note 6.1 of the accounts with K500,662 disclosed in the accounts described as other accounts. I was unable to verify this figure as there was no source document available for confirmation;
- I was unable to confirm the trust fund balance of K880,735 as disclosed in the statement due to no records furnished for my inspection;
- There were nine inactive trust accounts disclosed in Statement 'C'. The same inactive accounts have been continuously carried forward from prior years. However, management had failed to disclose the balances of active trust accounts such as Kandep Wheat Project, Enga Cultural Show Trust Accounts and others where legally established; and
- The accumulated fund balance was shown as overdrawn while its representation by the reconciled cashbook balances indicated as positive balance of K3,119,043.

#### 2. Receipts and Payments for 2012

I was unable to verify the accuracy of the receipts and payments reported as K118,090,460 and K128,646,717 respectively and subsequently the over expenditure of K10,556,257. The disclosure of funds as at December 2012 was not reliable and misleading due to the following reasons:

- There were material arithmetic errors and omission of figures noted on the financial statement, particularly Statements 'B', 'J' and 'K';

- The public servants and teachers salary receipts and payments stood at K20,604,156 and K40,795, 035 respectively totalling K61,399,191. The staff salary expenditure was not disclosed in Statement 'K'. The figures disclosed in Statements 'B' and 'J' could not be confirmed as no TMS 55 Report from the Department of Finance was produced for my examination;
- The actual revenue of K117,395,424 was added from prior year's functional grant receipts of K15,605,893. This functional grant should have been disclosed in the notes to that effect as these are not actual receipts for the current reporting year; and
- The bank reconciling items of both internal and grant accounts totalling K11,395,151 had not been identified and cleared from prior years resulting in significant misstatements in the cashbooks and ledgers which had led the cashbooks to operate in overdrawn balances.

### **3. Investments**

Statements 'E' and 'F' on short and long-term investments had no information on related balances held by the Provincial Government. I have noted that the Enga Provincial Government held different investments under business arms including Enga Children's Fund, Mineral Resources Enga and Miok Investments. Except for the Enga Children's Fund financial statements, which are annually audited by my Office, the investment registers including related documents for other investment companies held by the Provincial Government were not furnished for my examination. Hence, I was unable to ascertain the status and existence of the investments.

### **4. Assets**

Appendix 4 of the financial statements interestingly indicated no assets as at December 2012. There were assets worth K2,359,260 acquired in 2012 had not been disclosed in this Appendix. In the absence of a comprehensive assets register and annual stocktakes, I was unable to confirm the existence and complete value of assets owned by the Provincial Government as at 31 December 2012.

### **5. Advances**

Appendix 6 of the financial statement had interestingly no disclosure of outstanding advances as at December 2012. A review conducted on the ledgers revealed total outstanding advances including prior years of K2,559,257 paid. In the absence of a proper advance register and acquittal files, I was unable to verify the actual total advances outstanding and if there was any acquitted during the year;

#### **5.6.2.2 Control Environment**

##### **1. Corporate Governance**

The Provincial Government has developed a Corporate Plan and was launched at the time of this audit but was not produced for my examination. Therefore, audit was unable to establish the Corporate Plan and its goals and objectives with an emphasis on effective and efficient corporate management focused on major key areas development initiatives. The following are some significant matters as noted:

- Appropriate internal controls were not in place for identifying associated risk and barriers to achieving objectives such as offering new services and adapting to changes occurring within the organisation, economic and regulatory environment;



- There was lack of communication between the Provincial Government and Urban LLG management in discussing major issues and changes that had significant effect on the organisation;
- Adequate process of performing periodic revenue reviews to identify major factors affecting internal revenue collections was lacking;
- Management did not demonstrate a commitment to providing sufficient accounting, financial and IT personnel to keep pace with the growth and changing working environment of the organisation; and
- There was no evidence sighted to suggest that management gives appropriate attention to internal controls, including regularly educating and communicating the importance of internal controls to employees.

## **2. Work of Internal Audit**

An Internal Audit Unit existed within the Provincial Government Administration and was noted to be functioning during the time of audit. A review of its operations revealed the following observations:

- The Instrument of Authority certifying the Internal Audit Charter and Portfolios was not provided, as such I was unable to confirm whether the activities and functions performed by the Audit Unit was authorised by management;
- Audit annual plans, programs and a reconciliation of planned audits and actual audits or investigations conducted were not submitted to me when requested; and
- The Audit Committee comprising representative from both within and outside the Provincial Government, including representatives from the Department of Finance and the AGO, is functioning. Although the internal audit unit had produced many audit reports during the year there was no reconciliation as to the reports that had been addressed by management and the Audit Committee.

## **3. Appropriation and Budget Management**

Appropriation and budget management for 2012 for the Provincial Government was noted to be effective except the following matters:

- The current appropriation was K123,705,400 against the actual expenditure of K66,947,152 resulted in under expenditure by K56,758,248. This variance of under expenditure was due to public servants and the teachers' salary expenditure incurred by the Department of Finance directly not properly taken up in the books and properly disclosed in the financial statements; and
- The non-disclosure of actual revenue allocated and expenditure incurred on the public servants and teachers' salaries materially affected the accounts.

## **4. Revenue and Receivables**

The following noted observations caused the provided statements misleading and not reliable:

- The actual revenue as reported in Statement 'J' totalled K56,111,130 while Statement 'B' totalled K118,090,460 resulting in a difference of K61,979,330;
- Receipt of the staffing and teachers leave fare grant from the Department of Finance TMS 55 report was not disclosed in the statement neither was it recorded in the respective revenue ledgers. This consequently affects the related statements;
- Reconciling items of revenue appearing in the bank reconciliation statements were not adjusted in the cashbooks as well as the total revenue in Statements 'B' and 'J' and other related statements;

- The revenue ledger summary reflected total internal revenue of K 5,176,412.88 while audit computation of the same revenue ledger summary totalled K74,565,133.94 and the financial statements reported a differing total of K33,217,130. As such the reported internal revenue is erroneous and was incorrect;
- The internal revenue summary showed the Provincial Government cashbook amount of K32,790,722 which audit could not confirm with the January 2012 opening balances of both the grant and the Provincial Government operating accounts;
- The internal revenue ledger reflected MRSF revenue of K15,857,600 and royalties revenue of K6,700,000 but had no records available to verify and confirm revenues collected;
- There was no record provided for the MRE Investment Proceeds of K6,000,000 reflected in the revenue ledger;
- Records and accounts relating to liquor license collections were not submitted. Without these records I was unable to ascertain whether all liquor outlets licensing and operations adhered to established rules and regulations and whether all clients had duly paid up the required fees and how much remained outstanding as at year end;
- The duties of the officers responsible for revenue collection, monitoring, review and reporting were not properly defined. No formal document was furnished and as such I was unable to ascertain whether all revenues collected were brought to account and were appropriately verified and confirmed by designated officers;
- There was no segregation of duties on the collection and banking of revenue receipts as only a single officer performed these duties. Without the segregation of duties and lack of independent checks, funds collected could be stolen or misappropriated; and
- The Cash Fund Certificates were not provided as requested to verify receipt of the National Government grants received during the year.

## **5. Provincial Supplies and Tenders Board**

Section 40 of the *PFMA* prescribes that goods, works and services with a value greater than K300, 000 are to be purchased through a public tender process as it provides the government with the best chance of obtaining a “value for money” outcome. In contrary to this Section 40 of the Act I was unable to ascertain whether the function of the Provincial Supply and Tenders Board was in existence since no records were provided to audit although requested. These records should include Instrument of Appointment of the Provincial Supply and Tenders Board members, Minutes of board meetings held during the year, Register of Certificates of Inexpediency issued, Registers of Tenders Invited, Quotations Received and Contracts Awarded.

## **6. Capital Works and Maintenance**

The following observations were made under the capital works and maintenance programs:

- Examination of records and accounts in relation to capital works totalling K27,181,367 and the maintenance program totalling K382,998 respectively resulted in total expenditure of K27,564,366 in 2012. These expenditures were incurred in new constructions and maintenance of existing infrastructures such as roads, bridges, buildings and others. In this instance, I was unable to ascertain whether the function of the Provincial Supply and Tenders Board was in existence during the year under review as no records and accounts were furnished for audit confirmation;

- Examination of the payment vouchers revealed that relevant documents in support of a substantial amount of payments expended under the capital works and maintenance program or works contract engagements were either not in order or not provided. Consequently I was unable to verify and confirm the extent of compliance to proper contract engagements, approval and endorsement from the Provincial Executive Council, satisfying Provincial Supply and Tenders Board requirements and physical verification performed by the Technical Division for proof of services provided; and
- Although various contractors were engaged I was unable to verify whether these contractors had the necessary experience and expertise to undertake the given projects due to unavailability of the updated Pre-Qualification Register.

## **7. Procurement Procedural Management and Paid Accounts**

The following deficiencies were observed:

- A register was not maintained to record verbal and written quotations obtained;
- Purchases of goods and services were executed on the basis of quotations without official suppliers invoice. In the absence of suppliers invoices, I was unable to verify whether or not the invoices were checked against goods received and any deficiencies noted were communicated to management;
- Payments totalling K728,649 did not have three quotations. The required number of written quotations obtained from prospective suppliers was not complied with in respect of payments with values exceeding K5,000 but less than K100,000;
- Payment vouchers totalling K8,666,169 were missing and were not available for my examination;
- Instances of payments totalling K98,000 and K456,000 paid for legal and consultancy fees respectively had no necessary supporting documents including PSTB deliberations and endorsement on the engagement of these firms;
- Instances of forty-nine payments totalling K288,345 related to reimbursement of personal expenses approved for payment which had no prior approval of such commitments and in most instances lacked proper documentation to confirm the genuineness of the expenses incurred;
- Expenditure incurred totalling K1,159,697 on transport and fuel costs during the year where no motor vehicle register was used to monitor the movement of the administration's vehicles and the fuel ceilings for economical usage;
- Total expenditure of K1,168,914 paid for private vehicle hires during in 2012 where three written quotations were not obtained to consider a best economical price; and
- Instances of outstanding payments to various organisations and individuals for claims totalling K1,621,432 had no evidence to suggest standard criteria was used to determine validity of claims.

## **8. Grants and Subsidies**

A review of grants and subsidies to various organisations revealed the following observations:

- Grants, subsidies and financial assistance totalling K6,302,168 was paid to various recipients. I was unable to verify and confirm whether the anticipated programs were carried out with the given grants due to the absence of accountability reports;
- Subsidies provided to various schools and institutions totalling K3, 092,825 had failed to submit annual financial reports to the Provincial Administration via their advisor to the Education Division in the Province; and

- Grants paid to various LLGs totalling K1,852,946 had failed to submit their financial statements for the current and previous years via the respective District Treasury Office.

## 9. Cash Management

The following weaknesses were observed:

- The operating account showed a closing bank balance of K5,107,792 and a reconciled cashbook balance of K1,651,832 respectively as at 31<sup>st</sup> December 2012. Examination of related records revealed significant reconciling items of cheques on the bank statements not in the cashbook of K221,305 while other items of K262,319 and a list of unpresented cheques totalling K3,983,199 respectively have not been identified and cleared off to reflect a realistic cash balance position;
- The grant account showed a closing bank balance of K8,905,740.37 and a reconciled cashbook balance of K966,548.04 respectively as at 31 December 2012. A review of the related records revealed significant reconciling items of credits in the bank statement not in the cashbook of K295,200 while a list of unpresented cheques of K7,705,417 respectively have not been identified and cleared off accordingly to reflect a realistic cash balance;
- Stale cheques dating back to 2010 were not cancelled and written off as well as not adjusted in the cashbook thus inflating expenditure accordingly; and
- The monthly bank reconciliation for December 2011 was not made available to confirm January 2012 opening balance.

## 10. Advances Management

A review of records and related documents pertaining to the management of advances revealed the following matters:

- Appendix 6 of the financial statements reported advances as a nil balance however, advances totalling K2,559,257 incurred in 2012 remaining unacquitted have not been disclosed as at 31 December, 2012. This matter requires a thorough investigation for prompt clearance and possible recovery purposes;
- Serious concerns were noted pertaining to instances of substantial and additional advances issued to advance holders in spite of prior advances remaining unacquitted thus rendering a direct breach and violation of advance policy and acquittal procedures. Records of reminders sent or action taken to recover outstanding advances were not provided to audit; and
- Cash and duty travel advance acquittal forms had no supporting documents such as boarding passes and/or copies of duty travel airline tickets, invoices/receipts for accommodation and hire car advances and invoices/receipts for other miscellaneous advances.

## 11. Assets Management

Examination of the asset management practices exercised by the Provincial Government revealed the following matters:

- Appendix 4 of the financial statement reported a nil asset balance. The addition and disposal of assets during the year and assets disclosed in the asset register were not disclosed in the financial statement. In that case, I was not able to verify the completeness and existence of assets own as at 31 December 2012;
- The asset register was updated as at 20 May 2011 where additions and disposals in 2012 were not disclosed. Any purchase or disposal of assets during the year had

not been recorded in the stock cards with information of opening balance, addition, disposal and value by quantity and cost; and

- An extensive portfolio of fixed assets has not been effectively managed nor appropriately safeguarded against theft, fire or vandalism through appointment of custodians or taking insurance.

## **12. Human Resource Management**

Audit review and examination of payrolls systems, personnel files and related records revealed the following matters:

- Personnel files of the ten selected officers were not updated and lacked personal records including salaries and wages history cards, statutory declaration, copy of education qualification and others;
- Valid employment contracts for two senior officers were not sighted in their respective selected personnel files;
- The increments and decrements in pays for some of the permanent employees selected were not verified nor certified as to why they were made. It was noted that related valid documents such as permanent variation advices or notation forms were not sighted for confirmation;
- The personnel files and salary history cards had not been updated appropriately to support salary adjustments due to promotions, performance appraisals and others. Documents such as performance appraisals, permanent and temporary variations forms, over time forms and others were not available on file in some instances to support the salary variations; and
- There was no fortnightly payroll reconciliation done to certify the correctness of the payrolls.

### **5.6.2.3 Status of Financial Statements**

At the time of preparing this Report in July 2014, the Enga Provincial Government has not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

## **5.6.3 Wabag Urban Local-level Government**

### **5.6.3.1 Introduction**

The interim audit of Wabag Urban Local-level Government (ULLG) had been conducted without the financial statements for the period ended 31 December 2011. At the time of finalising this report, the Audit Management Letter had not been responded to. The paragraphs below detail the internal control issues identified with the ULLG.

### **5.6.3.2 Financial Statements – 2011**

The financial statements for Wabag ULLG for the year-ended 31 December 2011 had not been prepared and furnished to my Office for audit inspection as required. Matters highlighted below are the interim assessment of the internal controls environment. My review revealed observations which may explain why the financial statements were not produced:

- The Management Team appeared to be lacking leadership where there was no coordination and cooperation within the management team. As such there could be no control and direction from the management level and the performance from all levels of employees appeared to be lacking;

- I was of the view that the ULLG does not have any competent accounting staff properly trained and experienced to perform accounting duties; and
- There could be political interferences that influenced the administrative operation of the ULLG.

### 5.6.3.3 Control Environment

#### 1. Corporate Governance

The Wabag ULLG did not develop a Corporate Plan, thus endangering the organisation's operations and functions and indicate poor governance.

#### 2. Work of Internal Audit

The Internal Audit Unit of Wabag Provincial Administration had failed one of its responsibilities and duties by not conducting any audit into the routine operations of the ULLG during the year in order to highlight deficiencies for management to take corrective actions in a timely manner.

#### 3. Appropriation and Budget Management

The budget estimates for the fiscal year ended 31 December 2011 was approval by the Minister for Finance and Treasury on 15 March 2011 for total appropriation of K153,000.

The budget was formulated to accommodate the revenue and expenditure component of a National Development Grant of K110,000 and Internal Revenue Collections estimates of K43,000 while Staffing Grants and Project Support Grants were not addressed in this budget. Further, it was observed that the overall budget performance revealed a surplus of K43,331 resulting from expenditure totalling K102,400 as compared against total revenue of K145,731.

#### 4. Revenue and Receivables

The total estimated internal revenue of K11,000 as expected for collection during the year was not exactly collected resulting under-collection. It appears that efforts have not been applied either to collect the revenue or there has be a failure to record amounts being collected resulting in a downturn of the ULLG's internal revenue.

The ULLG was only concentrating on collecting its internal revenues mainly from trading licenses while other potential areas of collection points have been largely ignored.

#### 5. Procurement Procedures and Paid Accounts

A review of the procurement and payment procedures revealed irregularities and non-compliance with the *PFMA* and *Organic Law*:

- Expenditure totalling K102,400 incurred during the year had no payment vouchers attached to confirm the payments. The acting District Treasurer in his capacity explained in his letter that the missing paid vouchers was due to the office being broken into and everything got destroyed; and
- Due to the collapsed system of controls and missing paid vouchers, documentary evidence could not be tested for adequacy, irregularities and whether procurement was done economically and efficiently.

## 6. Cash Management

A review of the monthly bank reconciliation statements revealed that substantial reconciling items of revenue totalling K62,457 and expenditure of K65,218 respectively were not promptly adjusted to the cashbook as well as the revenue and expenditure ledgers. Consequently this resulted in outstanding reconciling items for prior years continuing to show in the bank reconciliation statements.

## 7. Advance Management

The ULLG had failed to maintain its advances register to record details of advances paid and those advances remaining unacquitted during the year. Without the advances register and expenditure ledgers, I was unable to ascertain the total amount of advances paid to the paymaster totalling K48,850 in 2011.

## 8. Asset Management

The ULLG had not maintained an assets register for the year ended 2011 and also had not conducted its annual stocktake of assets. In the absence of maintaining the comprehensive assets register I was unable to ascertain the existence, custody, condition and value of assets owned by the Wabag ULLG as at 31 December 2011.

## 9. Human Resource Management

In the absence of expenditure ledgers, payroll, wages sheets and related documents, I was unable to ascertain the total expenditure incurred on salaries and wages during the year and also on the correctness of the total expenditure incurred.

### 5.6.3.4 Status of Financial Statements

At the time of writing this Report in July 2014, the Wabag ULLG had not submitted its financial statements for the years ended 31 December 2012 and 2013 for audit.

## 5.6.4 Wabag General Hospital

### 5.6.4.1 Introduction

The audit of the 2011 financial statements, accounts and records had been completed and the audit reports were issued to the Ministers concerned. The Report contained a Disclaimer of Opinion and the internal control issues are reported in the following paragraphs.

### 5.6.4.2 Financial Statements–2011

Finance Instruction 2/2004 issued under Section 117 of the *PFMA* state the prescribed format for the preparation and presentation of the financial statements for public bodies. In contrary to the effect of Finance Instruction 2/2004 issued, Wabag General Hospital's financial statements for 2011 were not presented in the prescribed format as required.

#### 1. Cash Balances

The following observations were made under the cash fund balances:

- The Hospital's Operating cashbook balance of K1,048,244 reported did not confirm with the cashbook balance reported on the bank reconciliation as at 31 December 2011;

- The operating bank balance of K1,563,308 reported on did not tie up with the bank balance of K1,553,468 reported in the bank reconciliation as at 31 December 2011; and
- There was no trust instrument for the Hospital's Trust Account and as a result, the Hospital is already in breach of Section 15 of the PFMA. Therefore, audit was not able to confirm the existence of the Trust Account as correct.

## **2. Receipts and Payments**

The following observations were made under the receipts and payments:

- The Hospital was not able to retrieve the ledger of other receipts and donations component of K1,000,000 disclosed in the financial statement. As a result, audit was unable to verify the nature of other receipts and donations and was not able to confirm this balance as correct;
- Internal revenue from patient fees totalling K521,523 did not agree with the patient fees totalling K121,523 disclosed in the financial statement. Hence, the internal revenue from patient fees disclosed in the financial statement has been understated by K400,000; and
- Audit was not able to trace the grants received from the Department of Health and CFCs raised totalling K3,247,100 to the bank statement. Some bank statement pages were missing and were not consistent.

### **5.6.4.3 Control Environment**

#### **1. Appropriation and Budget Management**

The following observations were revealed under the review of appropriation and budget management:

- A review of the budgetary control procedures and examination of budget appropriation documents noted that grants were not strictly used for the purposes for which such grants were released; and
- Hospital management had failed to conduct monthly budget and performance reviews. Such non-review of performance could contribute to ongoing poor performance.

#### **2. Corporate Plan**

There was no Corporate Plan submitted despite numerous requests made during the audit. Also, it was unclear whether plan goals and objectives had been achieved due to management not monitoring achievement against the plan.

#### **3. Internal Audit**

No internal audits were conducted on the accounts of the Hospital. The Internal Audit function was lacking in keeping pace with the modern concept of internal audit as an independent appraisal activity within an organisation for the review of accounting, financial and other operations as a vital service to management to enable informed decisions to be made.

#### **4. Revenue and Receivables**

Audit tests performed on revenue controls, collection and banking procedures confirmed and commended that great improvement on the areas of delays in banking and segregation of duties including independent checks.



## 5. Procurement Procedures

Review of the procurement procedures and payments revealed the following weaknesses:

- There was no instrument of appointment made for Section 32 and accounting officers such as Requisition Officers, Certifying Officer and Examining Officers to define their designated responsibilities;
- Instances of payments totalling K119,097 had no three quotations. Also, travel payments totalling K12,461 were not being acquitted with boarding passes, ticket butt and hotel receipts;
- The hospital has incurred legal fee expenses made to three different law firm totalling K25,150 where audit did not see any copies of an agreement document or terms of engagement signed between the two parties;
- Lease agreements were not sighted for rentals related to doctors' accommodation and the listings for all rental properties. Total rental expenses incurred in 2011 without the lease agreement was K109,900;and
- Control over the movement of motor vehicles and usage of fuel was lacking and as such the transport and fuel expense had escalated. It was noted that fuel expenses totalling K255,452 were paid without proper reconciliation of the claims made by the suppliers. Further, the hospital did not maintain a fuel and motor vehicle register to monitor the movement of hospital vehicles and the fuel ceilings for economical usage.

## 6. Cash Book and Bank Accounts

The monthly bank reconciliations were not reviewed, checked and signed by the senior responsible person hence, lacked segregation of duties which is necessary for control purposes.

## 7. Advances Management

Review of various advance registers maintained during the year revealed that cash advances totalling K26,040 remained unacquitted as at year end. Cash advances totalling K20,028 were paid straight to the advance holder rather than the supplier. Further, no evidential documentation was sighted during inspection for reminder notices to advance holders to acquit travelling and other allowances.

## 8. Asset Management

The review of the registers, ledgers and the related records revealed the following:

- The Hospital has an extensive portfolio of fixed assets that had not been effectively managed nor appropriately safeguarded against theft, fire or vandalism through appointment of custodians or taking out insurance;
- There was no evidence provided to suggest that there was any physical stocktake of assets undertaken during the year; and
- An asset register was not adequately maintained to record all fixed assets, including any purchases and disposal of assets, for the entity.

## 9. Human Resource Management

Review of the payrolls, personnel files and related records revealed the following issues:

- Personnel files of the seven employees audit had selected were not updated and lacked important personal records;
- The personnel file of three contract officers were not provided to audit, hence missing;
- Hospital management has failed to update personnel files and salary history cards appropriately to support salary adjustments due to promotions and performance appraisals. Documents such as performance appraisals, permanent and temporary variations forms, and overtime forms were not available on file in some instances to support the salary variations; and
- Wage calculation sheets were not attached to payment vouchers to authenticate the correctness of the wages computed and paid to casuals. As a result, audit was not able to verify the total of K132,289 paid to casuals.

#### **5.6.4.4 Status of Financial Statements**

At the time of writing this Report in July 2014, the Wabag General Hospital has submitted its copies of financial statements for the years ended 31 December 2012 and 2013 for my inspection and audit. The field audit associated with the inspection of the accounts and records and the assessment of the internal control mechanisms for the years 2012 and 2013 have commenced.

### **5.6.4 Enga Children's Trust Fund**

#### **5.6.4.1 Introduction**

The audit of Enga Children's Trust Fund's 2011 financial statements, accounts and records had been completed and the audit report was issued to the Ministers concerned. The Report contained a Disclaimer of Opinion and the audit findings are reported in the following paragraphs.

#### **5.6.4.2 Financial Statements –2011**

The *PFMA* requires Government Public Bodies, Business Arms and Trust Funds to submit their financial statements to the Department of Finance and a copy to the AGO before 30 June in each year in such a form and detail and containing such other information as required by an Act of Parliament or as the Minister requires.

#### **Cash Balances**

The following observations were made:

- An on-call deposit balance of K185,214 was reported in the financial statements, however the IBD certificates and third-party bank confirmations confirmed a balance of K253,656 as at 31 December 2011 in which the IBD account balance was understated by K68,442 in the financial statements;
- The BSP loan of K2,738,043 as detailed in Note 10 to the financial statements had no note reference made to the disclosure in the balance sheet; and
- The shareholder loan of K673,720 provided to Enga Provincial Government had been accumulated over the years and was unsecured, payable on demand and interest free. There was no formal agreement between the two parties to formalise such transactions.

### 5.6.4.3 Control Environment

#### 1. Procurement Procedures and Paid Accounts

The following observations were revealed:

- Payment vouchers selected on a sample basis for audit check noted that four different projects were sponsored by Enga Childrens Fund Trust ECFT totalling K217,590. Evidence of Board approvals for ECFT to sponsor these projects were not sighted to authenticate the validity of the payments made;
- Review of the cashbook noted that instances of three different payments totalling K565,450 were not in line with the trust deeds. Details of payments were not related to any intended purpose for the trust; and
- Directors' sittings allowances for the year totalled K56,000 paid for four different scheduled meetings. Payments of K2,000 were made to all seven directors despite some sending apologies and not attending. I therefore, was unable to ascertain whether everyone is entitled to benefit the said allowance even if he/she did not attend a scheduled meeting.

#### 2. Cash Management

Review of the cashbook and the bank reconciliations revealed that regular monthly bank reconciliations were not prepared except for the month of December. Such practice clearly implies there is a weakness in the control environment over cash management.

#### 3. Fixed Assets

The following observations were made:

- There was no proper register for investment properties and other fixed assets of the Trustee Fund maintained to adequately record their details and movements; and
- The Trustee Fund's main function is to invest the funds in investment properties and expense the returns to properties only. Vital documents, such as the land and property titles confirming ownership of these properties, were not adequately maintained for independent confirmation.

### 5.6.4.4 Status of Financial Statement

At the time of writing this Report in July 2014, the Enga Children's Fund had submitted its copies of the financial statements for the years ended 31 December 2012 and 2013 respectively for my inspection and audit. The field audit associated with the inspection of the accounts and records and the assessment of the internal control environment for the years 2012 and 2013 has been completed. The Management Letters containing identified deficiencies will be issued to management for response and corrective actions shortly.

## 5.7 FLY RIVER PROVINCE

### 5.7.1 Introduction

The report on the Fly River Province covers the audit of the accounts and records of the Fly River Provincial Government, Daru Urban Local-level Government, Kiunga Urban Local-level Government and Daru General Hospital Board. The reports cover the financial years ending 31 December 2010 - 2012 for the Provincial Government; 2010 for Daru Urban Local-level Government; 2010 – 2011 for Kiunga Urban Local-level Government and 2010 for the Daru Hospital Board.

### 5.7.2 Fly River Provincial Government

The Fly River Provincial Government had submitted its financial statements for the years ended 31 December 2010, 2011 and 2012 for my inspection and audit. The field work associated with the audit of the financial statements, accounts and records had been completed and the Management Letters were issued in March and April 2014 respectively to the Provincial Administrator and other agencies concerned. The audit opinion reports for the three years were issued to the Ministers concerned and other relevant bodies.

#### 5.7.2.1 Financial Statements –2012

My reports for the years 2010, 2011 and 2012 to the Ministers concerned and other relevant bodies under the *Audit Act* and the *Organic Law* were issued in April, May and June 2014 respectively. The reports for the three years contained similar Disclaimer of Opinions hence, only the 2012 report is reproduced as follows:

##### “Basis for Disclaimer Opinion

##### Presentation of Financial Statements

The financial statements for Fly River Provincial Government did not fully comply with the format prescribed by Finance Instructions in that the Governor and Administrator’s Statements on the Provincial Government Budget Performance and Financial Performance were not presented; and that the financial statements were not signed and certified to authenticate the report as legal document presenting a true and fair view of financial activities of the Provincial Government during the year.

##### Cash Balances

The Provincial Fund balance of (K28,564,928) was not accurately represented by the total Reconciled Cashbook balance of K2,341,923 revealing an unexplained variance of (K26,223,005). The cashbooks and ledger balances disclosed in the financial statements were materially misstated as a result. As such, I could not ascertain the accuracy of the account balances and consequently, the financial position of the Provincial Government as at 31 December 2012.

##### Investments

The Fly River Provincial Government did not disclose any balance of its Direct Investments, Capital Contributions, Equity Options and Rights as at 31 December 2012. The financial statements footnote stated however, that the Provincial Government had Investments in OKTML, Ramu Sugar Ltd, MROT2, 10% Equity and Forest Export Levy. I was unable to ascertain the accuracy of these investments in the absence of Investment Registers, Certificates and management representation.

### Assets

The Fly River Provincial Government did not disclose any details or balances of fixed assets as at 31 December 2012. I have however, noted that the Provincial Government had acquired assets in 2010, 2011 and 2012 at a total cost of over K4,835,000 which were not recorded in the fixed assets register nor disclosed in the financial statements. Consequently, the reported nil balance was erroneous and unreliable.

### Advances

The Fly River Provincial Government disclosed total unacquitted advances for the year as K1,476,240 but did not include the prior year's total outstanding advances of K11,190,131. The omission of prior years' advances had resulted in the material misstatement of the balance of outstanding advances at yearend.

### **Disclaimer of Opinion**

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I was unable to express an opinion on the Provincial Government's financial statements for the year ended 31 December 2012."

#### **5.7.2.2 Control Environment**

In accordance with the *Audit Act* and the *Organic Law* I have a duty to report on other significant control issues arising out of the financial statements to which the reports relate. I have noted similar issues in 2010, 2011 and 2012 audits, hence only the 2012 issues are reproduced as follows:

##### **1. Corporate Governance**

- The Fly River Provincial Government's five year Corporate Plan 2011 – 2015 highlighted eight Key Result Areas (KRA). However, as noted in my previous years' reports, there was no evidence to suggest that a monitoring and evaluation team was in place; performance reviews were done; Human Resource Development and Rewarding Policies were in place; Asset Management policy and guidelines developed, and a comprehensive Asset Register were established; Ward level project planning, implementation, monitoring and performance evaluations were done; and policy guidelines were in place;
- The Provincial Assembly and Provincial Executive meeting minutes were either incomplete or not maintained; and,
- The appointment instruments for Provincial Assembly and Provincial Executive Members were not available for confirmation and verification.

##### **2. Work of Internal Audit**

The Internal Audit Unit had continued to be active during the year resulting in a number of reports produced for management review and implementation, including reports on Olsobip Rural Local-level Government 2010 – 2011; Ningerum Rural Local-level Government 2010 – 2011; and the Star Mountains Rural Local-level Government 2010 – 2011. As reported in my previous year reports, the audit recommendations provided in those reports however, have not been implemented by management.

### 3. Appropriation and Budget Management

A certified Annual Appropriation Act 2012 of 2011 authorised the Fly River Provincial Government revenue and expenditure budget estimate of K189,179,600. I have however, made the following observations:

- The Ministerial approval Instrument was not provided for my verification;
- National Government Grant revenues could not be reliably confirmed in the absence of a complete set of Warrant Authorities, Cash Fund Certificates and bank statements; and
- Management failed to monitor budget performance as evidenced by lack of budget reviews consistent with its corporate plan goals and strategies.

### 4. Revenue and Receivables

Review of collection and banking procedures revealed the following issues:

- Delays in banking were noted for up to 11 working days; and
- Segregation of incompatible duties of revenue collection, receipting, preparing collector statements, prepare deposits, banking and posting into the PGAS cashbook and revenue ledgers and custody of keys to the main door and cupboard containing cash continued to be lacking.

### 5. Procurement Procedures

Audit tests on payments for accuracy and completeness revealed the following control weaknesses:

#### Paid Accounts

- Supporting documentation for fifty-one payments totalling K3,086,107 were not provided for audit examination. The propriety and legality of these expenditures could not be confirmed in audit;
- Twenty four instances of payments totalling K1,462,979 lacked valid invoices and required written quotations;
- Payments to a legal firm totalling K116,000 lacked legally binding engagement contract; and
- Payments for consultancy services totalling K135,900 were not supported with payment vouchers and legal contracts signed to engage the consultants.

#### Capital Works and Maintenance

My review and examination of documents on capital works and maintenance expenditure of K10,039,424 revealed the following anomalies:

- Payment vouchers on thirty payments totalling K2,033,014 were missing from the files inspected. Consequently, the appropriateness and legality of these expenditures could not be confirmed;
- Payments totalling K135,000 lacked Provincial Supply and Tenders Board (PSTB) approvals and executable binding contract documents; and
- The Instruments establishing the appointment of the PSTB, Meeting Minutes and Resolutions, Control Registers for tenders invited, quotations received, contracts awarded and certificate of inexpedience issued were not available for my review.

### Grants and Subsidies

My review of grants and subsidies expenditure records revealed that the Fly River Provincial Government had expended over K9,590,000 as grants and subsidies to various organisations and agencies during the year. I noted however, that proper policy guidelines for management of grants and lump sum payments disbursed were lacking. Consequently, acquittals and disbursement reports/statements from recipients were not provided to the Provincial Administration nor were followed up for accountability purposes.

### Advances Management

The Fly River Provincial Administration did maintain an advances register. My examination and review of advances management procedures however, revealed the following matters:

- Advances totalling K11,265,517 per the expenditure ledgers were paid during the year of which a total of K11,190,313 remained unacquitted at the time of the audit thus, indicating a very serious lack of advance control management by the Provincial Administration; and
- The substantive test of ninety-two cash and traveling advances totalling K486,072 revealed no acquittal at all, and that no evidence was in sight to indicate whether any reminder notices and other appropriate actions were taken by management to recoup the outstanding advances.

## **6. Cash Management**

The Provincial Government maintained two bank accounts, namely the Fly River Provincial Government Operating Account and Fly River Provincial Grant Account with two separate cashbooks to conduct its financial transactions for Grant and Internal Revenues respectively. The inspection of these two bank accounts together with related records revealed the following issues:

- The closing bank and cashbook balances reported above were not reconciled due to the application of wrong bank reconciliation procedures;
- The monthly bank reconciliations were not checked and certified by the Provincial Treasurer as a correct copy; and
- Significant reconcilable items parked in the supporting schedules had been outstanding for years thus distorting the real cashbook and account balances. These items had not been identified and cleared consistent with the relevant Financial Instructions.

## **7. Assets Management**

The Fly River Provincial Administration did not maintain a comprehensive Assets Register on assets purchased and disposed during the year as well as those of the previous years. Consequently, additions including motor vehicles, laptops, etc. for the three years ended 31 December 2012 at a total cost of K4,835,209 had not been recorded and therefore, not accounted for.

## **8. Trust Accounts Management**

The Fly River Provincial Government operated a total of five Trust Accounts without bank accounts. The Trust Accounts Provincial Government Accounting System (PGAS) ledgers had an accumulated closing balance of K134,314,313 (over draft). However, in the absence of Trust Instruments I could not ascertain whether these Trust Accounts relate to Fly River Provincial Government and also the purpose for which they have been

created.

## **9. Human Resource Management**

My review of the sampled personal files, payrolls and other related records revealed the following issues:

- Employment contracts were not renewed to effect formal contractual employment in the Public Service. The Officers were however, on pay roll for over three to four years after the expiry of their employment contracts; and
- Personal files for casual employees on the Provincial Government payroll were not maintained. As such, I could not verify the correctness of the rates used to compute their wages and allowances.

## **10. Journal Management**

Supporting documentation of thirteen journal entries with an accumulated value of K2,026,069 were not sighted on files. As such the validity and legality of these journal entries could not be ascertained.

### **5.7.2.3 Management Responses**

The audit findings on the financial statements and internal control weaknesses for the years 2010, 2011, and 2012 had been communicated to the Provincial Administrator with related risk impacts and recommendations for improvements. At the time of preparing this Report, I have however, not received responses to the Management Letters.

### **5.7.2.4 Status of Financial Statements**

At the time of preparing this Report, the Fly River Provincial Government had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit. However, in the absence of the financial statements, the interim audit of the accounts and records was scheduled to commence soon.

## **5.7.3 Daru Urban Local-level Government**

### **5.7.3.1 Introduction**

The relevant sections of the *Organic Law* require the Local-level Government to submit its financial statements and its accounts and records to be audited by the Office of the Auditor-General of Papua New Guinea.

The Daru Urban Local-level Government (ULLG) had submitted its financial statements for the year ended 31 December 2010 for my inspection and audit. The field work associated with the audit of the financial statements, accounts and records had been completed and the Management Letter was issued in May 2014 to the Town Manager and other agencies concerned. The audit opinion report was issued to the Ministers concerned and other relevant bodies in June 2014.

### **5.7.3.2 Financial Statements – 2010**

My report for the year 2010 to the Ministers concerned and other relevant bodies under the *Audit Act* and the *Organic Law* was issued in June 2014. The report was a Disclaimer of Opinion as reproduced below:



## **“Basis for Disclaimer Opinion**

### Presentation of Financial Statements

The financial statements of Daru ULLG for the year ended 31 December 2010 did not comply with the format prescribed by the Finance Instruction in that the Town Mayor and the District Administrator’s Report on the budget and financial performance for the year under review were not included.

### Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank balance of K127,024 and consequently, on the financial position of Daru ULLG as at 31 December 2010 due to the following reasons:

- The opening balances for the year were not in agreement with the closing balances for the previous financial year; and
- Reconciling items of revenue and expenditure which have accumulated from prior years have not been cleared.

### Assets

I was unable to establish the total value of the assets due to incompleteness in the maintenance of the assets register. Also there was no evidence to indicate that periodic stocktakes were conducted to determine the existence and conditions of assets owned and in the custody of the ULLG as at year end.

## **Disclaimer of Opinion**

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I was unable to express an opinion on the financial statements of Daru ULLG for the year ended 31 December 2010”.

### **5.7.3.3 Control Environment**

In accordance with the *Audit Act* and the *Organic Law* I have a duty to report on other significant control issues arising out of the financial statements to which the report relate. I have noted significant control issues in the audit of the Daru ULLG for the year ended 31 December 2010 which are reproduced as follows:

#### **1. Corporate Governance**

- The ULLG did not have a corporate plan or a five year development plan with long-term objectives, set priorities and any achievable targets. Further, there was no evidence of any associated plans in place; and
- Daru ULLG's Financial Executive Council Board minutes and resolutions were not made available for my review. As such, I was unable to determine whether there had been any proper meetings conducted during year.

#### **2. Work of Internal Audit**

The Provincial Government is responsible for the internal audit of the entities such as the LLG's, however, during 2010 there was no audits conducted on the accounts and records of the Daru ULLG to ensure that the control mechanism instituted was operational and effective.

### 3. Appropriation and Budget Management

Daru ULLG's budgeted appropriation of K1,358,600 from both grants and internal revenues against its actual spending of K426,209 had an under collection of K932,319; and

- Further, Cash Fund Certificates (CFC) for the National Government grants received had not been available.

### 4. Revenue and Receivables

- The National Government grants received by the ULLG were stated as K633,400 as opposed to the revenue ledger record of K414,400 revealing an unexplained variance of K219,000; and
- Over K204,000 had been budgeted for internal revenue in 2010, however accounting records and transaction details kept by the district treasury had revealed no trace of collection, receipting, recording and banking of internal revenue collections done from various sources including market fees, land rates, and garbage collection fees.

### 5. Procurement Procedures

Audit tests on payments for accuracy and completeness revealed the following control weaknesses:

#### Paid Accounts

- Audit sighted no evidence of proper appointment Financial Delegates. Claims and payments were however, noted to have been seen properly verified, certified and approved by the Town Manager, District Treasurer and the District Administrator respectively;
- In twelve instances payments to service providers totalling K19,904 had the following concerns:
  - i. Valid invoices were not available although single quotes were sighted in each of the payments where possible; and
  - ii. No delivery dockets or proper receipts to confirm if goods had been received by the ULLG. In the absence of such records it is not known if such goods had actually been delivered or received by the LLG, while goods could be diverted elsewhere.
- A total of K53,250 paid for routine maintenance on twenty-three instances to various day labourers could not be confirmed in the absence of evidence to indicate if the labourers had signed to receive their wages. As such, I was unable to confirm if the labourers were paid the right amount; and

#### Advances Management

The advance register was never sighted, thus audit was unable to confirm with acquittals for duty travels. Further, attestation of transaction records had revealed the following concerns:

- Eleven instances of payments totalling K24,720 for vehicle hire in Daru to various suppliers were not supported with necessary supporting documents detailing the purpose or reasons, although invoices had been sighted; and
- Further, these advances had not been acquitted with proper receipts or related documents. As such it was not possible to determine if such monies paid for services had been used for their intended purposes.

## 6. Cash Management

Review of bank account and reconciliations revealed that monthly reconciliations were done, however following issues had been noted:

- The bank balance of K61,656.43 reported in the reconciliation as at 31 December, 2010 did not agree to the bank statement's amount of K122,247 revealing a difference of K60,591. This had also affected accuracy of the ULLG's fund balance reported in its financial statements;
- The cash balance of K127,024 did not reconcile to the closing cashbook balance of K199,072 as at 31 December 2010 which had revealed a variance of K71,050;
- Unpresented cheques amounting to K69,272 reported on the reconciliation statements could not be confirmed to their details/listings; and
- All the other outstanding items reported in the main schedules of the bank reconciliation statements totaling K134,476 were accumulated balances carried forward from prior years dating back to 2007.

## 7. Assets Management

Daru ULLG did not have a comprehensive fixed assets register to record details of assets that were owned and managed under the ULLG. Further it was noted that various assets including, buildings, land, and other computer and equipment totalling had no records available.

## 8. Human Resource Management

- Daru ULLG's staff establishment records together with personal files were not available at the time of my audit. As such I could not confirm the staff strength of both the casuals and permanent public servants. Further, it was not possible to determine whether or not formalities of employment were adhered to in recruitment of casuals; and
- Other checks relating to the accuracy of the rate of pays could not be done in the absence of the relevant employment records.

### 5.7.3.4 Management Responses

The audit findings on the financial statements and internal control weaknesses had been communicated to the District Administrator with related risk impacts and recommendations for improvements. At the time of preparing this Report, I have however, not received responses to the Management Letters.

### 5.7.3.5 Status of Financial Statements

At the time of preparing this Report, the Daru ULLG had submitted its financial statements for the years 2011 and 2012 for my inspection and audit while the 2013 financial statements were awaited. The audits of the financial statements for 2011 and 2012 and an interim audit for 2013 however, were scheduled to commence shortly.

## 5.7.4 Kiunga Urban Local-level Government

### 5.7.4.1 Introduction

The relevant sections of the *Organic Law* require the Local-level Government to submit its financial statements and its accounts and records to be audited by the Office of the Auditor-General of Papua New Guinea.

The Kiunga ULLG had submitted its financial statements for the year ended 31 December 2010 for my inspection and audit. The field work associated with the audit of the financial statements, accounts and records and the interim audit of the control environment for 2011 had been completed and the Management Letters were issued in May 2014 to the Town Manager and other agencies concerned. The audit opinion report on the 2010 financial statements was issued to the Ministers concerned and other relevant bodies in June 2014.

#### 5.7.4.2 Financial Statements – 2010

My report for the year 2010 to the Ministers concerned and other relevant bodies under the *Audit Act* and the *Organic Law* was issued in June 2014. The report was a Disclaimer of Opinion as reproduced below:

##### **“Basis for Disclaimer Opinion**

###### Presentation of Financial Statements

The financial statements of Kiunga ULLG for the year ended 31 December 2010 fully complied with the format prescribed by the Finance Instruction.

###### Cash Balances

The Kiunga ULLG 2010 Revenue Fund Balance of K68,016 did agree to the reconciled cashbook balance as at 31 December 2010. I am however, unable to confirm the accuracy of the cash balances shown in the financial statements due to the following issues:

- The total revenue of K435,214 as per the financial statements did not agree with the revenue ledger total of K734,862 disclosing a significant variance of K299,648; and
- The prior year’s revenue fund adjustments of K567,727 were not supported with the relevant source records. Consequently I was unable to confirm and verify the accuracy of these adjustments.

###### Receipts and Payments

The reconciling items of revenue and expenditure identified through the bank reconciliation were not taken up in the ledgers and cashbook or sorted out with the bank. The nature of such errors would have misstated the closing balances of the ledger accounts and the cashbook at year end with consequent effects in the financial statements disclosure of cash balances.

###### Assets

The financial statement showed assets as K329,491 as at 31 December 2010. The Kiunga ULLG however, had not maintained assets register. As such, I could not confirm the accuracy and completeness of the assets value disclosed or the additions of K23,388 and disposals, if any, during the year. Further, no physical stocktake of assets was conducted during the year to verify the existence and condition of assets of the ULLG at year end.

###### Debtors

The financial statements showed K73,095 as outstanding debts due from rentals as at 31 December 2010. Outstanding collections from Sanitation and Garbage and Trading Licenses however, were not disclosed due to non-maintenance of debtors ledgers. As

such, I was unable to ascertain the total value, accuracy and completeness of debts due to the ULLG as at 31 December 2010.

### Advances

The financial statement showed a sum of K106,480 as unacquitted advances as at 31 December 2010. The accuracy of the amount could not be confirmed as it also included those of the previous years' dating back to 2008.

### **Disclaimer of Opinion**

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and consequently, I am unable to express an opinion on the financial statements of Kiunga ULLG for the year ended 31 December 2010".

#### **5.7.4.3 Control Environment**

In accordance with the *Audit Act* and the *Organic Law*, I have a duty to report on other significant control issues. Both the 2010 and 2011 reports contained similar control weaknesses hence, only 2011 issues are reproduced as follows:

##### **1. Corporate Governance**

- The Kiunga ULLG did not have a properly designed Corporate Plan in place with long-term objectives, priorities and targets taking into account the requirements of its stakeholders nor the associated activity plans in place towards achieving its stated goals; and
- The Kiunga ULLG held only one council meeting during the financial year under review and that there had not been any other related meetings held.

##### **2. Work of Internal Audit**

There were no regular internal audits conducted by the Internal Audit Unit of the Provincial Government into the routine operations of the ULLG during the year under review.

##### **3. Appropriation and Budget Management**

The Kiunga ULLG 2011 revenue and expenditure budget of K967,300 was duly passed by the Kiunga ULLG Assembly. The ULLG had only managed to raise its actual revenue of K918,691 and expended only K798,276 of its actual revenue resulting in an under-expenditure of K120,415 for the year. I noted that the ULLG had unrealistically over-budgeted its revenue and expenditure for the year.

##### **4. Revenue and Receivables**

Examination of the revenue ledgers and other records revealed the following matters:

- The year to date actual collection in internal revenue was K72,899 against an estimation of K75,000 resulting in a net under collection of K2,101. Significant under collections were noted in all main internal revenue sources;
- Debtors K93,095 worth was owed to Kiunga ULLG by tenants for office spaces since 2003 without any recovery actions: and
- Other debts relating to Trading Licence, Sanitation and Garbage and Land Rates could not be ascertained in the absence of the Debtors Ledgers.

## 5. Procurement Procedures

### Paid Accounts

Audit review and tests on procurement and payments procedures revealed the following matters:

- Payments totalling K40,000 made to long serving councilors as service entitlements lacked evidence of SRC Determinations such as ex-gratia payments to leaders;
- Payments totalling K30,886 made to a security firm lacked a proper contract or formal engagement documentation;
- Payment vouchers relating to the payments totalling K19,496 were missing from the files examined; and
- Appointment instruments for Section 32 Officers were not sighted. Thus in the absence of the financial instrument, audit could not verify whether all payments made were authorised, approved, examined and certified by the appointed Authorised Requisition Officer, Financial Delegate, Examiner and Certifying Officer.

### Capital Works and Maintenance

Examination of procurements incurred on infrastructure development during the year revealed that except for minor town cleaning and maintenance services, there had not been any major capital works undertaken.

### Grants and Subsidies

Payments totalling K81,054 were paid out during the year as financial assistance to mainly individuals, small scale businesses and women groups. However, the recipients have not been submitting acquittals or accountability reports on how the funds have been utilised, thus exposing the ULLG to the risk of misapplication of the funds.

### Advances Management

- Total advances of K26,698 consisting of Cash Advances K10,100 and Travel Allowances K16,598 remained unacquitted as at 31 December 2011; and
- There was no evidence to suggest that all advances paid in previous years had been acquitted and that reminder notices and other actions had been taken by management to recoup long outstanding advances.

## 6. Cash Management

I noted a serious breakdown in the internal controls over daily collections and banking of monies at the cash office. The following were the weaknesses note:

- Segregation of duties were lacking at the cash office in that the cash office clerk performed a dual role as collector of public monies as well as balancing and banking of public monies and subsequently compilation of collector statements. The functions performed were not checked and attested by District Treasury senior officers;
- No proper safe existed to lock away the unbanked collections. The unbanked daily collections were therefore kept away in an unlocked open drawer;
- Monies from internal collections were not banked promptly. Delays in banking ranging from two to twenty-four days were noted;

- There were instances of internal revenues either not receipted in full, not banked intact and properly brought to account in the revenue ledger and cashbook respectively;
- Lack of proper maintenance of cashbook resulted in an overdrawn closing cashbook balance of K621,561 at year end; and
- Schedules to the bank reconciliation statement showed significant outstanding reconciling items which also included prior years items dating back to 2003 not cleared at year end thereby distorting the real cashbook balance.

## 7. Assets Management

- The Kiunga ULLG did not maintain a proper updated fixed assets register during the year under review. As a result, assets purchased during the year totalling K23,767 were not recorded in the assets register; and
- Further, no periodic stocktake of the ULLG assets and inventories were conducted during the year or in the previous years.

## 8. Human Resource Management

A review of the records and accounts relating to the payment of salaries, wages and allowances revealed the following weaknesses:

- Instances of salary increases not supported with valid Pay Variations Advices and other necessary documents; and
- Casual wages totalling K22,364 lacked evidence of recipients actually signing off for receiving their pays.

### 5.7.4.4 Management Responses

The audit findings on the internal control weaknesses had been communicated to the Town Manager with related risk impacts and recommendations for improvements. At the time of preparing this Report, I have however, not received responses to the Management Letter.

### 5.7.4.5 Status of Financial Statements

At the time of preparing this Report, the Kiunga ULLG had not submitted its financial statements for the years 2011, 2012 and 2013 for my inspection and audit. The interim audits for 2012 and 2013 however, were scheduled to commence shortly.

## 5.7.5 Daru General Hospital Board

### 5.7.5.1 Introduction

Daru General Hospital was established under the *Public Hospitals Act*. The relevant sections of the Act as well as the *PFMA* require the Hospital Board submit its financial statements and together with its accounts and records to be audited or by the Auditor-General and be reported to the Ministers concerned.

The Hospital had submitted its financial statements for the year ended 31 December 2010 for my inspection and audit. The field work associated with the audit of the financial statements, accounts and records had been completed and the Management Letter was issued in July 2013 to the a/Chief Executive Officer and other agencies concerned. The audit opinion report on the 2010 financial statements was issued subsequently.

### 5.7.5.2 Financial Statements – 2010

My report to the relevant Ministers and other bodies concerned under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Hospital for the year ended 31 December 2010 was issued in June 2014. The report was a Disclaimer of Opinion.

#### “Basis for Disclaimer of Opinion

##### Presentation of Financial Statements

Daru General Hospital's financial statements for 2010 fully complied with the prescribed format in accordance with the Finance Instructions except that the statement of accumulated funds as at 31 December 2010 had not been furnished.

##### Cash Balances

The financial statements figures reported under the operational and fees trust accounts could not be accurately confirmed to ledger records as the general ledgers maintained were not provided for my review.

##### Assets

- The Daru General Hospital did not have a comprehensive assets register. In the absence of such a register, I was unable to determine the actual value of all fixed assets owned and controlled by the entity; and
- Schedule of assets, losses and deficiencies, and liabilities of K560,979, K231,436, and K396,000 respectively could not be confirmed to their registers as respective records were not made available for my inspection.

##### Advances

- Total unacquitted advances were shown as K383,689 of which the total of K152,857 alone relates to salary advances to various officers. Some of these advances date back to as far as 2003. The Hospital had not made any meaningful effort to have the advances acquitted or took other necessary recovery actions; and
- Transactions of the hospital accounts are maintained through manual spreadsheets and as such constitute a high risk to manipulation of data recorded.

#### **Disclaimer of Opinion**

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I was unable to express an opinion on the financial statements of Daru Hospital Board for the year ended 31 December 2010”.

### 5.7.5.3 Control Environment

In accordance with the *Public Hospitals Act* and the *Audit Act*, I have a duty to report on other significant control issues arising out of the financial statements to which the reports relate. The significant control weaknesses noted are as restated below:

#### **1. Corporate Governance**

Review of the records relating to the corporate governance issues revealed the following concerns:



- I was advised that prior to 2010 and up until the time of the audit in June 2013, Daru Hospital did not have a corporate plan with long-term objectives, set priorities and targets. I have however, sighted a draft five year Strategic Implementation Plan from 2012 to 2016 still in the process of being finalised; and
- The acting CEO confirmed that the Hospital had no Board as the terms of the members had expired prior to 2010. As such, there were no board meetings conducted nor minutes kept. Records have indicated however, in spite of this the Hospital had paid stipends and allowances of more than K22,000 to certain individuals.

## 2. Work of Internal Audit

The National Department of Health was responsible for the internal audit of the hospital. However, no internal audit was conducted during the year to ensure that the control mechanism instituted was operational and effective.

## 3. Appropriation and Budget Management

- The Hospital had over-spent its budget appropriation of K5,388,300 by K560,624;
- The Hospital had not computed its internal revenue budget/estimates based on prior year collections to project revenue for the current year. It had however collected its internal revenue of K59,946 but expended all of this along with other grants received; and
- Salary and allowances paid through the Department of Finance could not be confirmed in the absence of payroll reconciliations.

## 4. Revenue and Receivables

Except for the National Government grants, the internal revenues were poorly managed as highlighted below:

- Cash collected and recorded on collector statements could not be confirmed to deposit slips and receipts as these documents were not attached to collector statements of more than sixty instances;
- Segregation of duties relating to collection, recording and banking of daily fees collection were not properly delegated or such duties were noted to have been performed by one or two individuals;
- Revenue ledgers were not available to confirm if daily cash collections had been recorded intact. Audit however, noted that payment of suppliers invoices were illegally entertained with cash from day's collections and without properly recording them;
- Borrowing of cash by staff on various occasions had been noted without proper records of these illegal transactions; and
- Cash collection and recording undertaken by cashiers and checked by OIC-Revenue had not been independently confirmed by the DFA or the Accountant before and after deposits were done.

## 5. Procurement Procedures

Audit tests on payments for accuracy and completeness revealed the following control weaknesses:

### Paid Accounts

Audit examination of paid vouchers and related records revealed the following issues:

- Formal appointment instruments were not available to confirm the appointment of financial delegates who have examined, certified and approved claims and their approved limitations (for Section 32 Officers). In the absence of formal appointment instruments, audit was unable to confirm the validity of persons who have acted in those positions in 2010;
- Validity of payments totalling more than K231,000 for operational materials and stationery could not be confirmed in the absence of required quotations where applicable, and delivery dockets and/or consignment notes;
- Payments for routine maintenance totalling K88,916 were not supported with Maintenance Request forms nor the delivery dockets and proper receipts on all goods purchased been sighted to confirm that all materials bought had been correctly received;
- Tenancy agreements together with invoices relating to payment of accommodation rentals for doctors and other contract officers had not been sighted. As such audit was unable to determine if the payments to landlords were valid; and
- Further, audit noted that more than 50% of the paid vouchers selected for audit testing had been missing or were not on file, indicating a very poor filing system being maintained by the Hospital.

#### Advances Management

Payments of salary and travel advances totalling K353,374 had remained unacquitted at year end. No supporting documents had been sighted to confirm the purpose of travel taken and that majority of the advances had been outstanding since 2003.

### **6. Cash Management**

The Daru Hospital had operated only one operating account which catered for both the fees and the operational account transactions, while a single cashbook was maintained. The year-end bank balance of K267,014 together with outstanding items of unrepresented cheques totalling K29,737 and deposits of K272 had accurately reconciled to the cashbook balance of K237,549. However, the cashbook maintained during the year was not sighted to confirm the reported balance as at 31 December 2010.

### **7. Assets Management**

Review of assets records revealed that:

Daru Hospital did not have a comprehensive fixed assets register to record details of all the assets owned and under the custody of the Hospital. Further, it was noted that various assets, including bio medical equipment, motor vehicles, buildings, land, furniture and fittings, and other computer and accessories, had no records available.

### **8. Human Resource Management**

Audit review of payrolls, personnel files and related records revealed unsatisfactory outcomes as detailed below:

- A number of public servants have been on and off the payrolls at will thus, rendering a very high risk of manipulation of employee's salary and allowances by responsible agencies which could go undetected;
- Allowances paid to clinical other than medical staff could not be verified as the amount of allowances paid under their different medical category were not clearly identified to their respective awards;
- Numbers of employees were paid base salaries at rates above their grades under

the public servants salary structure 2010-2013. As such, audit was unable to comment if staff information of salary and allowances kept by the Hospital is in line with DPM's records; and

- Audit also noted that formal contracts were not sighted or were not available for a number of officers who held contract positions for more than 2-3 years with the Daru General Hospital.

#### **5.7.5.4 Management Responses**

The audit findings on the financial statements and internal control environment had been communicated to the Town Manager with related risk impacts and recommendations for improvements. At the time of preparing this Report, I have however, not received responses to the Management Letter.

#### **5.7.5.5 Status of Financial Statements**

At the time of preparing this Report, the Daru General Hospital had not submitted its financial statements for the years 2011, 2012 and 2013 for my inspection and audit. The interim audits for the three years however, were scheduled to commence shortly.

## 5.8 GULF PROVINCE

### 5.8.1 Introduction

The Kerema Provincial Government, Kerema Urban Local-level Government and Kerema General Hospital are audited every year, with or without financial statements. Other Local-level Governments (LLGs) and the Business Arms of the Provincial Government could not be audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Governments.

### 5.8.2 Gulf Provincial Government–2010, 2011 and 2012 Accounts

The interim audits of 2010, 2011 and 2012 accounts and records were completed without financial statements. The internal control environment issues were common from 2010, 2011 and 2012 financial years and therefore, only the 2012 internal control issues are reported in the following paragraphs.

#### 5.8.2.1 Control Environment

##### 1. Corporate Governance

The following observations had been made:

- The Provincial Government had developed a Corporate Plan titled Vision 2020 for the period 2011-2020. This plan was not supported with associated plans with clear phases of implementation and evaluation of performance in accordance with the strategic plan;
- The key result areas identified in the corporate plan were not supported by associated annual activity plans that linked the annual budget and the corporate plan goals; and
- I was provided with only one copy of the Provincial Assembly Meeting minute dated 18 December 2012. The meeting held had no numbering written on to establish the number of meetings convened during the year.

##### 2. Work of Internal Audit

The Internal Audit Unit had effectively begun to do its core responsibility in preparing an annual work plan and conducts its regular audits in 2012. The unit is expected to function properly once adequate funding and other necessary logistical support are provided to enable it to efficiently perform its tasks.

##### 3. Appropriation and Budget Management

The *2012 Appropriation Act (No.1 of 2012)* authorised the estimates of revenue and expenditure totalling K52,137,693 for the year ended 31December 2012. The Budget was passed by the Gulf Provincial Government on 25 January 2012. Examination of the budget documents revealed the following matters:

- Ministerial Approval of the 2012 budget was not sighted;
- A complete set of Warrant Authorities relating to National Government Grants were not produced for my inspection;
- All grant receipts were not recorded in the cashbook and revenue ledgers;
- No evidence was produced to show whether budget performance reviews had been done.

#### 4. Revenue and Receivables

An evaluation of revenue controls, collection and banking procedures reveal the following matters:

- Cash collected were not banked daily as required due to non-availability of banking services in the Province;
- Grant revenues totalling K28,934,300 received through the bank account from the National Government were not receipted and posted into the PGAS cashbook and respective revenue ledgers; and
- In the absence of supporting documents a deposit of K5,000,000 on 11 May 2012 could not be confirmed to its source.

#### 5. Procurement Procedures

##### Provincial Supply and Tenders Board

The Instrument establishing the Provincial Supply and Tenders Board (PSTB), Meeting Minutes and Resolutions of meetings convened by the Board together with registers maintained to record all tenders invited, quotations received, contracts awarded and Certificates of Inexpediency issued were not made available for my inspection. This clearly represents the PSTB did not function as an effective authority. There were contracts and services awarded during the year where I was unable to verify the status of projects.

##### Capital Works and Maintenance

Examination of documents and procedures relating to capital works and maintenance expenditures incurred totalling K1,016,458 revealed the following anomalies:

- There were no major procurement of capital works and maintenance work undertaken;
- Supporting vouchers for payments totalling K444,898 were missing from the files provided for my inspection; and
- Payments totalling K465,784 were not supported with valid minor works contract documents.

##### Grants and Subsidies

The Provincial Government paid grants, subsidies and financial assistances totalling K646,730 to various recipients. I was unable to confirm whether the anticipated programs were fully carried out with the given grants due to the absence of accountability reports.

##### Payment of Accounts

The examination of selected payment vouchers to ensure compliance with the financial instructions detailed in the Financial Management Manual revealed the following anomalies:

- There were several payments totalling K479,945 were not supported by the required three verbal and/or written quotations from suppliers;
- Payment vouchers with relevant supporting documents relating to twenty-four different payments totalling K933,893 were missing from the test samples; and
- The specimen signature of Section 32 Officers and other appointed financial officers were not sighted for my confirmation. In the absence of these signature's I

was unable to ascertain the legality and propriety of all expenditures approved and paid during the year.

## **6. Cash Management**

I was unable to verify the accuracy of the monthly bank reconciliations prepared during the year due to the following reasons:

- The year-end bank and cashbook balances of K9,212,591 and K34,904,118(overdraft) respectively were not reconciled due to application of wrong bank reconciliation procedures;
- The grant revenues received from the National Government were not posted to respective revenue ledgers and the cashbook that resulted in the overdrawn cashbook balance although the bank balance was favorable;
- The revenues received were banked in a revenue clearing account operated away from the account and transferred occasionally to the main operating bank account hence bank credits would not match with PGAS cashbook deposits;
- The monthly bank reconciliations for all twelvemonths had not been certified by the appropriate senior officer; and
- There were significant reconcilable items noted in the supporting schedules that had been outstanding for many years thus, distorting real cashbook and account balances.

## **7. Assets Management**

A review of the procurement of assets, the maintenance of asset registers and control practices revealed the following weaknesses:

- The Financial Management Manual requires assets registers to be maintained under the following classifications: land and building; furniture and fitting; office equipment; motor vehicles; marine vessels; plant and machinery and tools and equipment. These requirements had not been fully complied with by the Government in a centralised and coordinated manner; and
- The Provincial Government had not been maintaining its comprehensive Asset Register at the time of audit; therefore it was not given for audit examination. As such assets purchased during the year totalling K597,555 could not be verified against the register.

## **8. Advance management**

An audit review of advance registers, expenditure ledgers and other related records revealed the following matters:

- A total of K1,206,587 related to cash and travel advances paid during current and prior years remained outstanding as at the time of this audit. Similarly, acquittal vouchers for advances marked acquitted were not sighted on files provided to audit;
- Outstanding advance holders were given subsequent advances during the year. For instance, an officer who had outstanding advances was subsequently paid both travel and cash advances totalling K241,427; and
- No evidence was sighted to indicate that reminder notices and other course of actions had been taken by management to recoup long outstanding advances.

## 9. Human Resource Management

The payrolls, personal files and other underlying records were examined and noted the following weaknesses:

- Four personal files out of ten that had been requested were not made available for audit;
- The payrolls for the year were not reconciled;
- The six files provided to audit lacked necessary information such as Tax Declaration Forms, approved forms detailing last recreation leaves taken, birth certificates of dependent, etc.;
- The staff establishment register showed that a significant number of DPM approved positions are yet to be filled;
- It was noted that there were no regular payroll reconciliations, unbudgeted back payments in salaries and other allowances, over payment of salaries and allowances, no supporting vouchers for HDA back payments, irregular application of DMA, misapplication of health awards, payment of allowances to unattached officers, officers restored on payroll without following proper procedures and non-compliance of General Orders; and
- There was no regular update of staff salary history cards and other bio data.

### 5.8.2.2 Status of Financial Statements

At the time of preparing this Report in July 2014, the Gulf Provincial Government has submitted late its 2010, 2011 and 2012 financial statements. They will be reported in my 2014 Part 3 report. Financial Statements for 2013 have not been submitted yet.

## 5.8.3 Kerema Urban Local-level Government

### 5.8.3.1 Introduction

The interim audit of Kerema Urban Local-level Government (ULLG) for the financial year 2010 was completed without the financial statements. The Management Letter was issued and identified significant internal control issues noted during the audit inspection are reported in the following paragraphs.

### 5.8.3.2 2010 Accounts

The interim audit of 2010 accounts and records was completed without financial statements. The audits of the controls environment for the same year had been finalised with a Management Letter issued.

### 5.8.3.3 Control Environment

There were notable internal control weaknesses identified in 2010 which are reported in the following paragraphs.

#### 1. Corporate Governance

The effectiveness of service delivery entirely depends on prudent corporate governance which involves planning, directing and controlling of the scarce resources in order to attain maximum output. The Kerema ULLG had a copy of an unsigned draft 'Five Years Development Plan' (2010-2017). No evidence of Corporate Governance existed in the ULLG.

## 2. Work of Internal Audit

The Internal Audit Unit of Gulf Provincial Administration had failed one of its core responsibilities and duties by not conducting any audit into the routine operations of the ULLG. Hence, significant weaknesses of the Administration could not be reported to management on a timely basis for corrective actions to be employed.

## 3. Appropriation and Budget Management

The annual budget is part of the corporate strategy that is aligned to corporate goals set in the corporate plan. Annual budgets are approved through legislation hence actual application must conform to or within the approved limits and intended purposes. I was not able to ascertain the legality of the ULLG 2010 Budget as this important document was not developed to have a clear picture of its estimates on revenues and expenditures.

## 4. Revenue and Receivables

I was unable to confirm the receipts and payments and subsequently the accuracy of the excess receipts over payments of K2,908 as at December 2010 due to the following reasons:

- Receipts were not checked prior to banking. Only one person was performing the functions of collecting, preparing collectors statements and banking hence lacking segregation of duties;
- Collection of monies was not done by a duly appointed collector of public monies and the point of collection was in an open public area. There was no safe to lock away unbanked receipts and many instances were noted where delays in banking up to 15 days occurred;
- Daily takings were reused for purchase of items without approval. Certain staff members were also borrowing from the daily collections without any records maintained; and
- Debtor ledgers for uncollected debts in respect of all revenue heads were not maintained during the year. Long outstanding debts were not followed up and action taken for recovery resulting in significant shortfall in revenue collection.

## 5. Procurement Procedures and Payments

The following weaknesses were noted from the controls surrounding the procurement procedures:

- Procurement procedures stipulated in the *PFMA* were violated in that quotations from three suppliers were not obtained nor was a quotation register maintained;
- Payments totalling K79,137 and K8,200 were paid to Ward Chairmen and Elementary Schools respectively. Evidences of acquittals or accountability reports from these recipients were not produced thus violating the *PFMA*;
- The specimen signatures of duly appointed Section 32 Officers were not maintained by the Kerema ULLG; and
- Payment totalling K26,268 were made from incorrect vote items without seeking approval to transfer funds from other votes to make the payment.

## 6. Cash Management

It is essential to consider prudent cash management practices to reflect the ULLG's cash position or alternatively the fund balance at any point in time and to enable management to make cash management decisions in a timely manner. I was not able to establish the cash position as at 31 December 2010 due to the non-availability of monthly bank reconciliations.



## 7. Asset Management

The asset register was not maintained nor stocktakes of assets and inventories carried out during the year. In the absence of a comprehensive assets register and annual stocktakes, I was unable to confirm the existence and completeness of assets owned by ULLG as at 31 December 2010.

## 8. Advance Management

An advance register was not maintained for recording of cash and travel advances. An acquittal file was also not maintained for the acquittal of advances paid. Consequently, I was not able to ensure the accuracy of the total advances paid and remain unacquitted at year end.

## 9. Human Resource Management

In the absence of expenditure ledgers, payrolls, wages sheets and related documents, I was unable to ascertain whether the correct expenditures incurred on salaries and wages during the year.

### 5.8.3.4 Status of Financial Statements

At the time of writing this Report in July 2014, the Kerema ULLG had not submitted its financial statements for the years ended 31 December 2011, 2012 and 2013 for audit.

## 5.8.4 Kerema General Hospital

### 5.8.4.1 Introduction

The audit of Kerema General Hospital for financial year 2010 was completed with the financial statements. The Management Letter was issued and identified internal controls issues noted during the audit inspection are reported in the following paragraphs.

### 5.8.4.2 Financial Statements – 2010

My report was prepared for the Ministers for Health, the Treasury and the Finance respectively under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Hospital for the year ended 31 December 2010 and was issued thereafter. The issued report was a Disclaimer Audit Opinion.

It was noted that in the presented financial statements of 2010, the prescribed format as required by Finance Instruction 2/2004 was not used in order to incorporate all the information including the Hospital Board certification, schedules of Assets, Contingent Liabilities and other specific notes.

#### 1. Cash Balances

I was unable to express an opinion on the accuracy of the reported balances from both the Operating and Trust Accounts due the following reasons:

- Total receipts for the Operating Account of K5,875,739 as reported in the financial statements was technically incorrect compared to the adjusted financial statements balance of K6,229,237, misstating K371,498 from the brought forward balance;
- The total receipts for the Trust Account would have been K36,459 and not as stated in the adjusted financial statements of K10,303,134 consequently leading to a misstatement of K10,266,675 which was certainly from the balance brought

forward;

- There was no schedules of Assets and Liabilities reported on the financial statements as required by Finance Instruction 2/2004; and
- The Salaries and Allowances paid by the Department of Finance had no individual ledger accounts maintained to record all incomes received to date. As a result these balances were not taken up in the financial statement thus rendering the financial statement unreliable.

## 2. Revenue and Receivables

The following observations have been made under the revenue collection:

- All receipt copies for the month of January to August and November to December were not sighted on the collector statements submitted to the accounts; and
- Banking was delayed for more than 14 days in lump sums of money and was noted to have been done once or twice in a month.

### 5.8.4.3 Control Environment - 2010

The audit of the 2010 financial statements, accounts and records had been completed and the Management Letter issued to management was not responded to. The paragraphs below detail the issues identified with the financial statements, accounts and records of the Hospital.

#### 1. Corporate Governance

I have confirmed with management that the Hospital had a workable five year Corporate Plan (2009 – 2013) from which they developed their Annual Work Plans. A copy of the plan was provided and showed that the main objectives are in three major categories:

1. Improve Health Service Provision;
2. Better Management;
3. Support Coordinated Primary and Curative Health Care Service Delivery to the Rural Districts.

#### 2. Internal Audit Unit

I have noted that there was no internal audit work undertaken for 2010 by the National Health department since last audit report in 2007.

#### 3. Appropriation and Budget Management

Review of the Hospital's Budgets Appropriation and Actual receipts against actual expenditures noted that expenditures incurred by five vote items were overspent by K416,796 while some of the budgeted items for the year were underspent by K170,349 missing out on some important planned projects.

#### 4. Procurement Procedures

A review of the procurement procedures revealed the weakness as follows:

- An initial Contract price of K1,526,250 was approved for architectural and engineering design for the redevelopment of the Kerema General Hospital. This was signed between the Independent State of PNG and a consultancy company on 13 May 2008 on Contract No: CSTB 1828. I have noted that in 2010 payments totalling K2,673,220 which was in excess of K1,146,970 against the approved

fund for the signed contract paid to the consultancy services. Further for the same project, there were subsequent payments made to the consultancy company of K3,000,000 and K5,460,260 respectively for contract variation costs based on the two Special Board Meetings No:02/2010 and 04/2011 held where no related documents and correspondences from CSTB were provided for my examination. Audit then established that CSTB approved the consultancy agreement contract for the company for a total of K9,986,500 for architectural and engineering design as well as management of the project, where no supporting correspondences was available for my examination.

## **5. Paid Accounts**

The following observations had been made:

- There was no record available for formal appointment instruments of Section 32 officers including financial delegates for my examination. In the absence of formal appointment instruments, I was unable to confirm the validity of persons who have acted on those positions during the year;
- In 45 instances of payments totalling K269,965 from the selected 188 payment vouchers were not provided for audit confirmation;
- In 28 instances of different payments totalling K145,935 lacked three quotations for the patient rations, accommodations, hire vehicles, stationary supplies and pharmaceutical as required by the PFMA;
- Three payment vouchers totalling K5,913 has no quotations attached to confirm the validity of the payments;
- In seven instances of payments totalling K34,544 for various expenditures, appropriate Financial Delegate had not signed and approved the FF3 and FF4 for payment; and
- Nine payments totalling K42,523 to several landlords for rental of accommodation for contract officers could not be confirmed for validity due to the absence of their employment contracts.

## **6. Cash Management**

The following weaknesses have been observed cash management:

- All monthly bank reconciliations were not reviewed and signed by the Manager, Accounts nor the Director Finance and Corporate Services for control purposes;
- The salaries and allowances paid by the Department of Finance had no individual ledger accounts maintained to reflect all incomes received to date; and
- Hospital management had failed to properly maintain important documents such as cashbook.

## **7. Advances Management**

There was no proper advances register and acquittals file maintained to record all advances paid and if any recovery action was taken on outstanding travelling allowances, including cash and salary advances. Consequently outstanding advances totalling K129,117 could not be verified.

## **8. Asset Management**

The fixed assets register was not maintained in order to capture total fixed assets worth K115,072 acquired in 2010 from both operating and trust accounts as at year end. In the

absence of the comprehensive fixed asset register, I was unable to verify the existence, the overall value and ownership of the fixed assets for the Hospital.

## **9. Human Resource Management**

A review on the payrolls, personal files and related records revealed the following weaknesses:

- The employment contracts related to three contract officers were not sighted to confirm the validity of their salary and allowances as well as for formality purposes;
- More than fifteen employees were noted to have been working as casuals for more than two to three years. Thus they should be made permanent officers as and when deemed appropriate by the management;
- There was no formal document such as qualification, application and references except letters of employment pertaining to three casuals being employed; and
- Tax and superannuation components were not calculated for the casuals who have been employed for more than two years which is a breach of *Income Tax Act 1959*.

### **5.8.4.4 Status of Financial Statements**

At the time of preparing this Report in July 2014, the Kerema General Hospital has not submitted its financial statements for the years ended 31 December 2011, 2012 and 2013 for audit.

## **5.9 HELA PROVINCE**

### **5.9.1 Hela Provincial Government**

#### **5.9.1.1 Status of Financial Statements**

At the time of writing this Report in July 2014, the Hela Provincial Government had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit. When the financial statements are submitted, I will carry out a 'One-Stop-Audit' which will also include the Provincial Hospital and the Urban Local-level Government and report in my Part 3 2014 report.

## **5.10 JIWAKA PROVINCE**

### **5.10.1 Jiwaka Provincial Government**

#### **5.10.1.1 Status of Financial Statements**

At the time of writing this Report in July 2014, the Jiwaka Provincial Government had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit. When the financial statements are submitted, I will carry out a 'One-Stop-Audit' which will also include the Provincial Hospital and the Urban Local-level Government and report in my Part 3 2014 report.

## 5.11 MADANG PROVINCE

### 5.11.1 Madang Provincial Government

#### 5.11.1.1 Introduction

The audit of 2011, 2012 and 2013 financial statements, accounts and records were completed and the audit opinion reports were issued to the Ministers concern. The three years audit reports were a 'Disclaimer of Opinion' and the internal control issues were common throughout therefore, only 2013 audit findings are reported below.

#### 5.11.1.2 Financial Statements – 2013

##### Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank balances and consequently, on the financial position of the Madang Provincial Government as at 31 December 2013 due to the following reasons:

- I disclaimed the financial statements in my previous years' audit opinion reports, including the years prior to 2011. Those statements had contained inherited material misstatements particularly individual account cash balances and as such rendered the accumulated fund balances in Statement 'A' misstated. Remedial adjustments taken to correct the account balances had not been provided for my examination and as such, I could not confirm the current accumulated fund balance of K14,137,432;
- Note 6 to the accounts disclosed a total bank balance of K20,364 813 against the cash book balance of K14,137,432 resulting in a reconciling difference of K6,227,731. Examination of bank reconciliations performed revealed direct bank credits and debits had not been updated in the cashbooks, and cheque payments in bank statements not in cashbooks could not be traced due to lack of source documents. A significant amount of stale cheques had not been written back to the cashbooks and they all relate to previous years as well as the current year. Therefore the cash balances of the grant and internal revenue accounts were distorted; and
- Statement 'C' showed a number of non-bank trust accounts with a negative accumulated fund balance of K969,710. These could not be confirmed as solely provincial trust accounts as the statement was incomplete where trust codes were not shown. The balance was incorrectly disclosed in Statement 'A' as positive, contrary to the underlying statement 'C' showing as negative. Further no established trust instruments or authority were sighted to determine the purpose of their operations.

##### Receipts and Payments

I was unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the operating surplus of K9,442,783 due to stale cheques totalling more than K671,000 incorrectly treated as revenue under Statements 'B' and 'J' and consequently had overstated the total revenue to that extent.

### Investments

Statements 'E' and 'F' had not disclosed any investments in any financial institutions, business arms or corporate entities. Due to a lack of records, I was unable to comment on the Madang Development Corporation and other related entities.

### Debtors

Appendix 2 reported total debtors and receivables of K76,955 as 31 December 2013 were carried over from 2012. However, in the absence of appropriate supporting documents, I was unable to confirm the accuracy of the total amount of debtors reported.

### Assets

Appendix 4 reported incomplete information of assets valued at cost of K10,494,437. Due to inadequate maintenance of a comprehensive fixed assets register and lack of detailed information, I was unable to verify the total value, condition and custody of assets of the Provincial Government as at 31 December 2013.

### Advances

Appendix 6 revealed total unacquitted advances of K1,843,629 as at 31 December 2013. My analysis of the expenditure ledgers revealed that travel and cash advances totalling K5,148,004 were expended during the year. In the absence of proper advances register and acquittal files, I could not confirm the stated unacquitted total and also confirm whether prior year's outstanding advances have been duly acquitted.

## **5.11.1.3 Control Environment**

### **1. Corporate Governance**

Madang Provincial Government did not have a corporate plan that outlined its long term objectives, set priorities and targets and requirements of its stakeholders. The Province was operating without a proper development plan since its last corporate plan had lapsed in 2012. In the absence of such plans and other related documents, I was unable to establish whether the quarterly meetings had been conducted to appraise and assess the activities in the province.

### PEC Meeting Minutes

I was not provided with the 2013 Provincial Executive Council (PEC) and Provincial Assembly meeting minutes and resolutions for my review. As such I was unable to determine important issues affecting the Province were handled.

### **2. Work of Internal Audits**

The internal audit section was not functioning effectively within the Madang Provincial Government Administration. There had not been any effective audit plan covering major activities of the Provincial Government. Hence, no audit or investigation reports were produced for the period under review and prior years as well.



### 3. Appropriation and Budget Management

The Appropriation Act 2013 appropriated K233,237,600 for the provision of goods and services for the fiscal year commencing 1 January 2013. The following issues were noted:

- A copy of the revised budget although requested was not provided for my examination, while general ledger reports revealed records of revised budget information against their actuals;
- Excessive funds transfers made from one vote or function to another noted from transactions could not be confirmed as properly authorised in the absence of the budget reviews; and
- K60 million for the District Services Improvement Programs included in this budget were irrelevant since the DSIP funds were received and spent through the District Accounts, while the Provincial Government had no control over the usage of these funds.

### 4. Revenue and Receivables

Controls surrounding revenue management in terms of revenue collection and banking, revenue receivable, maintenance of records; data monitoring and reporting were noted to have improved except the few shortcomings:

- Coupon copies of receipts ranged from number 2666400 to 266599 were not attached to the collector statements number 159/13 for collections done on 20 August 2013;
- Stale cheques were treated as revenue and were receipted and recorded in the ledgers resulting in the total revenue being incorrectly inflated by more than K670,000, as reported under financial statements 'B' and 'J'; and
- The amounts of money receipted were never written in words to confirm the figures reported. Recording of figures only could result in the value of cash being easily altered while actual cash stolen or misappropriated.

### 5. Procurement Procedures and Payment

#### Procurement Management

My review of the procurement process observed by the Madang Provincial Government noted the following non-compliance and irregularities:

- Formal Appointment Instruments regarding the approved financial delegates and their limits, requisition officers, certifying officer, examining officer were not furnished to me. Without the formal appointment instrument, I was unable to ascertain whether proper procurement process and procedures were adhered to in processing all the claims of expenditures totalling over K64,568,524 as per Statement 'K' of the Financial Statement provided. Consequently, Section 32 of the *PFMA* was breached and all the claims for payments are deemed to be unauthorised and illegal;
- The Instrument establishing the Provincial Supply and Tenders Board, meeting minutes and resolutions of meetings convened by the Board during the year and registers maintained to record all tenders invited, quotations received, contracts awarded and Certificates of Inexpediency issued were not made available to me, which indicated that the Provincial Supply and Tenders Board did not function as an effective authority. Without such vital documentations, I could not ascertain whether proper tender process and procedures were adhered to in awarding

projects of tenderable values to contractors. Hence, Section 40, Division 7 of the *PFMA* was not complied with;

- Various contractors and suppliers were awarded contracts and services during the year. I was unable to verify the completion stages of the various projects due to the absence of proper status reports, progress reports and completion reports for each of the projects;
- Required number of quotations were not obtained before claims were submitted for processing;
- Expenditures were charged to incorrect votes;
- Instances of claims not thoroughly examined and certified;
- Certain claims lacked proper and necessary supporting documentation and approvals;
- ILLPOC's were frequently used in processing claims without the FF3 and FF4 forms used;
- Tenderable values K300,000 had no PEC and PSTB approvals before claims were processed;
- Instances of over-riding of procurement procedures for claims of certain amounts that require appropriate approvals and application of special procurement procedures; and
- Most expenses incurred were neither planned nor budgeted for.

#### Paid Accounts

The following discrepancies were noted from the samples selected, tested and analysed from the respective expenditure ledgers:

- Instances of payments totalling K10 million lacked proper and appropriate approval from the PSTB before the payments were processed. There was no documentary evidence attached to the claims processed to prove that required procurement process and procedures had been complied with;
- Excessive uses of hired vehicles by the Provincial Administration and Governor's Office have resulted in the Province incurring a staggering cost totalling K5,893,250. Most of the claims paid had been for outstanding services already rendered by individuals and hire car companies;
- Abnormal and suspicious payments were made to two hire car companies namely; (Note: I use "A" and "B" instead of the actual names):

- a) "A" was paid a total of K1,152,063 in three separate payments. It was claimed that there was an existing commercial lease agreement signed between the Provincial Administration and the company and the vehicles were used on a long-term basis by the Divisions of Mines and Finance and the Administrator's Office. I had not sighted such agreements in these claims. It was understood that a little over K2 million was paid in 2012 under such arrangements without proper justifications of the use and purpose of the vehicles hired.

At the time of my audit in March 2014 a similar claim of K880,000 had to be stopped due to the supporting documentations having contradicting invoices and an attached commercial lease agreement was dated to be signed on 28<sup>th</sup> October 2014 for services rendered in 2013. The claim appeared to be bogus in nature and an immediate investigation was requested; and

- b) A total of K1,537,290 was paid to "B". Most of the payments include long-term hires and outstanding services claims rendered to the Divisions of

Mines and Finance and the Provincial Administration with no commercial lease agreements sighted. Coincidentally, it appeared that services were rendered to these divisions at the same time by “A” for the same purposes.

*Concerns of excessive hire car usage have been highlighted in previous audits and also by the Public Accounts Committee; however, no proactive and remedial actions were taken by the Provincial Administration.*

- I noted instances of split payments were made towards the close of accounts. A total of K946,330 paid was split into six different claims;
- Fuel usage by the Provincial Administration was excessive and alarming in 2013 alone. The Administration incurred a total of K1,212,367 towards fuel. There is no evidence to prove that procedural mechanism and proper control had been adhered to in order to minimise fuel consumption and cost. *Previous years audits have highlighted this issue but no remedial and corrective actions were taken;*
- The Provincial administration had spent a total of K341,521 for 2013 quarterly budget review and 2014 budget preparation during the period under review. I was not provided with the 2013 revised budget and I also noted that the advances paid for the meals and accommodation during the budget review and the preparation had not been acquitted;
- I noted that a politician of Madang had been double dipping by being paid a housing allowance while he already had an official residence;
- Reimbursements made to individuals and organisation’s amounted to K254,153 in total. These reimbursements were claims for various expenses incurred on behalf of the Provincial Government without evidence of prior approval. I noted that the nature and purpose of these expenses incurred were not substantiated and there was no proper documented evidence attached to prove that the expenses incurred were valid and for a planned purpose. Such practices could be used to defraud the Province and the State;
- Consultancy fees paid to various consultancy firms engaged added up to K930,000. Their engagements were without approval from the Provincial Consultancy Steering Committee and the Provincial Supply and Tenders Board. Also, I had not sighted any reports produced and their work done. Such consultancies can be a waste and misuse of funds that are supposed to be spent in vital services needed by the people of the province. *Similar issues of consultancy firm’s engagements were raised in previous year’s audits but no remedial actions were taken to date.*

### Grants and Subsidies

My review of grants and subsidies paid to various organisations revealed the following discrepancies:

- Payments totalling K9,931,112 from different votes paid as grants and financial assistance to various community based organisations, schools and institutions and individuals have not provided accountability reports to verify that the expenditures were accounted for and were valid;
- A total of K2, 200,000 had been paid as subsidies to three organisations who failed to submit audited annual financial reports. The organisations included:
  - a. Madang Development Corporation – K1,000,000
  - b. Madang Chamber of Commerce – K500,000
  - c. Electoral Commissioner Madang – K700,000
- There was no evidence to prove that proper policies and guidelines existed to administer the use of grants, particularly the grant assistance.

### Capital Works and Maintenance

My review of the records and details of the capital works and maintenance of the Madang Provincial Government revealed that instances of major and minor works contracts totalling over K7 million paid to various contractors had no contractual and supporting documentation to verify that tender process and procedures were complied with. I also noted that variations and additional payments had been made without proper documentation.

## **6. Cash Management**

Both bank reconciliations of the Provincial Government's Operating Account and the Grant Account as at 31 December 2013 contained substantial outstanding items dating back to previous years. These significant items should have been investigated and adjusted in both the cashbooks to arrive at realistic cashbook balances as at 31 December 2013.

### Advance Management

- The management of advance was lacking in that advances register and acquittal files were not adequately maintained or updated. Analysis of transactions record revealed that payments in excess of K4,785,000 were made. Most of these payments were not recorded in the advances register and acquitted and there was no evidence of enforcements to ensure acquittals of advances were made;
- Instances of massive cash advance made were never acquitted. These payments include;
  - a. K307,422 being made for overseas travel for local officers;
  - b. K217,608 being made for venue hire, meals and accommodation for the 2013 budget review; and
  - c. K100, 000 being paid to Graham Pais as cash advance for the close up for SME Summit.

I noted that these payments could have been misused and recommended for further investigation of the usage of these funds.

## **7. Assets Management**

There was no evidence to show that the Government adhered to best practices of asset management. I noted the following weakness:

- A comprehensive fixed assets register, if was any maintained ,was not provided to me for my examination and as such I was not able to ascertain the additions, disposals, conditions and value of fixed assets owned by the Madang Provincial Government.
- No evidence to confirm that physical stocktakes were done; and
- In the absence of the fixed assets register I was unable to verify assets purchased during the year totalling K4,744, 831.

## **8. Trust Account Management**

The Madang Provincial Government operated seven non-bank trust accounts which had shown a closing accumulated balance of K969,710. I noted that these trust accounts had not represented any bank account, while no trust instruments had been in place to monitor the receiving and spending of these monies. Such non-bank trust accounts could facilitate illegal transactions and as such I recommended to the Government to constantly check to ensure they were operated only on need basis or should cease from operating these non-bank trust fund accounts.

## **9. Human Resource Management**

My review of the payroll and related records for the Madang Provincial Government revealed the following issues:

- The payroll received from the Department of Personal Management (DPM) was incomplete and had missing names of certain employees. The provincial administration made no attempts to address this issue with the DPM;
- Payroll reconciliations had not been done; and
- Employment contracts for all contract positions were drafted and signed between Madang Provincial Administration and the respective officers were affected without the Department of Personal Management's review. I noted that no proper consultations were done with DPM to ensure contracts properly reviewed before affecting the contracts.

### **5.11.1.4 Management Response**

The aforementioned observations on the financial statements and internal control weaknesses for three years (2011, 2012 and 2013) had been identified and communicated to the Madang Provincial Administrator and Management. I have highlighted the impacts of these observations and made recommendations for management considerations and improvements however, I have not received responses to these Management Letters as at the time of preparing this Report.

## **5.11.2 Madang Urban Local-level Government**

### **5.11.2.1 Introduction**

The Madang Urban Local-level Government (Madang ULLG) did not submit its financial statements for the years ended 31 December 2011 and 2012. Consequently, I was unable to comment on the financial status and the management of the funds for Madang ULLG. Interim audits on the internal control environments for both years were conducted with Management Letters issued respectively. The internal control issues identified were common throughout hence, only 2012 audit findings are reported below.

### **5.11.2.2 Control Environment**

#### **1. Budgetary Controls**

There was no evidence to suggest that the Madang ULLG had established long-term objectives and strategies in order for proper formulation of the annual budget. The budget had not been supported by long-term objectives, priorities and targets to forecast the budget on. Estimated revenue to be collected to supplement the Annual Appropriation was in shortfall by K1,033,658 whilst incorrect charges on expenditure votes continued to have incurred.

## 2. Revenue and Receivables

- The debt collection mechanism and processes in place were not strictly enforced to enable timely debt collection. Debtors ledgers maintained indicated an increase in total outstanding debtors compared to previous years, including 2011 and this year 2012. Thus this indicated inefficient and ineffective debt collection measures were in place and a loss of anticipated revenue;
- There was no documentary evidence provided to me to satisfy that all business activities conducted in town were monitored to ensure no illegal business activities were conducted and that renewal of Trading Licenses was up to date; and
- Debtors Ledgers maintained by the Urban Council for Garbage and Land Rates indicated a total of K1,049,400 outstanding debts for Garbage and Land Rates at year end. No proper policies were in place to ensure all debts were collected on time.

## 3. Procurement Procedures

### Paid Accounts

I noted procurement processes were lacking in the payment of accounts as follows:

- The required number of quotations had not been obtained from various suppliers prior to purchase of goods and services;
- Payments made out of incorrect expenditure vote items;
- Claims certified neither by the examiner nor certifying officer prior to cheques being raised;
- Payment of K90,000 as financial assistances for development grants to respective ward members and another of K3,000 as financial assistance for funeral arrangements were made. A lack of proper policies and guidelines for expenses relating to grants and financial assistance has resulted in the non-accountability of the funds. No acquittal was available;
- Reimbursement for personal monies of K12,777 was paid without proof or receipts to prove that actual spending was made by the payee; and
- The Madang ULLG lacked proper monitoring system to ensure that only authorised vehicles have access to refueling, based on fuel docketts. In the absence of control mechanism over fuel usages could result in fuel being supplied to private or unauthorised vehicles or cash given in place of fuel.

Payments in various type and purposes were seen to be extravagantly paid by the Urban LLG without due care of the importance of budgetary control and the misusing of funds.

### Capital Works and Maintenance

Contract works and consultancy services provided by contractors and consultants were without evidence of proper compliance to procurement procedures. Tender committees did not appear to have been called, and proper evaluation and selection of individual companies were noted to have been lacking while it was observed contractors were in most occasions engaged on an ad-hoc basis.

A sum of K291,328 being part of the contract value of K450,000 for construction of the roundabout at Baidal, North Coast and Airport road intersection was paid to Better Roads Construction Ltd only on approval from the General Assembly in its meeting number 03/2012 in resolution number GAM 03/2012. A road contract, Contract No. ROA – 04/2011, was drawn by the Madang ULLG and signed however there was no evidence to suggest that the Provincial Supply and Tenders Board(PSTB) was consulted

and approval given by the PSTB for Better Roads Construction Ltd to construct the roundabout. The project was noted to be incomplete and was of substandard quality design resulting in wastage of public funds. There was no Completion Certificate as evidence that the work was completed satisfactorily.

#### **4. Cash Management**

- There was no evidence to show that the monthly bank reconciliation statements were checked and certified as correct as a control measure by a senior person other than the one preparing it
- The December Bank Reconciliation in Schedule 6 contained an amount of K128,516 described as 'unidentified expenditure for 1999 not taken up'. This amount carried over from 2004 could not be cleared and still appears in the monthly bank reconciliation statements; and
- The December Bank Reconciliation Statements also contained reconciling items dating back to 2005. No attempts have been made to clear these items.

#### Advance Management

The District Treasury Office and Madang ULLG had failed to ensure compliance with Part 20 of the Financial Management Manual relating to Advances Management. Proper registers and acquittal processes were not maintained and enforced. Thus resulting in total advances paid during the year amounting to K12,923 and the previous year outstanding not acquitted.

#### Investments

Madang ULLG had share investments in Ramu Agri Industry Ltd, Highlands Pacific Ltd, and Godowan Investments. In the absence of an investment register and related records, the existence and accuracy of these investments could not be established.

Interest Bearing Deposits of more than K200,000 with Finance Corporation Ltd and K100,000 with Mustard Seed Finance Company were reported in the 2010 financial statements. The status of these investments could not be established in the absence of proper records.

Godowan Investments Ltd, which is a business arm of Madang ULLG, took over the function from the ULLG to issue safety stickers and the ULLG workshop, now leased to Surpass Investment Ltd. A K50,000 payment for the lease of the workshop was shown. The financial accounts of this business arm were never furnished to my office for an independent audit to be conducted.

#### **5. Asset Management**

The fixed assets register maintained lacked vital information, such as value, and was not updated resulting in assets purchased in both 2011 and 2012 not being recorded in the register. I was unable to confirm the existence and completeness of assets owned by Madang ULLG.

Security of all valued assets, including residential properties, against damages and losses was lacking. Residences occupied by officers no longer employed were still occupied. And no evidence of periodic stocktake of all fixed assets conducted.

Isuzu truck bearing plate number MAE 021 purchased in 2008 for K160,000 by the Council was noted to have been out on lease/rental ever since it was purchased. The Council did not provide evidence of receipts from rental payments by the Lessee. Further, a duly signed Lease Agreement between the Lessee and the Madang ULLG was not provided for audit verification.

## **6. Human Resource Management**

Staff salary history cards were not maintained for several employees. As a result I was not able to verify the salary grades they were paid on and the leave records were not updated. There was no indication of payrolls being checked and salaries and wages tax declarations being lodged and copies maintained in the file.

The SRC Determinations were not complied with when paying Assembly Members' Allowances.

## **7. Trust Fund Management**

Receipts to the credit of the trust were abnormal in nature such as the stale and cancelled cheques, and roll over funds from former years. These credits were incorrectly treated as receipts. Any expenditure against these credits could be seen to be incorrectly charged.

All expenditure incurred and charged to the Trust Account Ledger Vote 320/405 was not reversed back to their respective recurrent expenditure vote items when funds became available.

### **5.11.2.4 Management Response**

The aforementioned observations on the internal control weaknesses had been identified and communicated to the Madang ULLG Management. I have highlighted the impacts of these observations and made recommendations for management considerations and improvements. However, I have not received a response to these Management Letters as at the time of preparing this Report.

### **5.11.2.5 Status of Financial Statements**

At the time of preparing this report in July 2014, the financial statements of Madang ULLG for the year ended 31 December 2013 had not been submitted for my inspection and audit.

## **5.11.3 Modilon General Hospital Board**

### **5.11.3.1 Introduction**

The audit of 2011 and 2012 financial statements, accounts and records had been completed and the audit reports issued to the Ministers concerned. An interim audit of the 2013 accounts and records had been conducted without the financial statements for the period ended 31 December 2013 with an interim Management Letter issued. The reports for 2011 and 2012 contained similar 'Disclaimer of Opinions' and the internal control issues were common in all years hence, the paragraphs below detail the issues identified with the 2012 financial statements and internal control issues for 2013.



### 5.11.3.2 Financial Statements – 2012

Finance Instructions 2/2004 issued under Section 117 of the *PFMA* state the prescribed format for the preparation and presentation of the financial statements for public bodies. The Modilon General Hospital had not been complying with this requirement in preparing and presenting the financial statements for audit in the required format in prior years and therefore there was reasonable doubt that this financial statement would comply with this requirement.

The financial statements did not contain a Consolidated Statement of Accumulated Fund, Statement of Receipts and Payments for Operating and Trust accounts respectively, Notes to the financial statements and Schedules of Capital Assets and Liabilities. Further, the financial statements of Modilon General Hospital were not presented before the prescribed date and had not been accompanied in the declaration by the Chief Executive Officer certifying the financial statement as true and fair.

#### Scope Limitation

- There was limitation of scope arising from cashbook balance:
  - a. The opening balances of the cashbooks could not be relied upon for their accuracy and completeness due to proper cashbooks not being maintained and timely bank reconciliations not being performed in prior years; and
  - b. Inconsistency and errors in the disclosure of bank balances. The bank balances per the financial statements did not agree to the reconciled bank balances for each of the accounts as at 31 December 2012.
- The quick books accounting software adopted by the hospital to manage all its accounts and produce required financial reports was noted to be unreliable. The system generated ledgers were consolidated records of transactions for both operating and trust accounts. Transactions for individual accounts were not recorded and accounted for separately, consequently, I was unable to determine separately how much was received and spent from each of the accounts. Furthermore, in the absence of ledgers and other underlying records I was unable to confirm the completeness and accuracy of the total receipts and payments of both accounts;
- I was unable to verify the existence, completeness and accuracy of Accounts Receivable of K80,709, Other Current Assets of K44,635, Fixed Assets of K238,956 and Liabilities of K59,370 reported in the balance sheet due to non-maintenance of respective ledgers and registers and source documents.

### 5.11.3.3 Control Environment

#### 1. Internal Audit

The internal audit unit of the hospital had not been functioning effectively.

#### 2. Appropriation and Budget Management

Budgetary documents such as the original and revised budget estimates, approved appropriation bills, and trust budget estimates (if any) were not provided for my examination. As such I was unable to validate whether proper processes had been applied in the formulation of the budget, the approval of the budget and control of the budget for both operating and trust fees accounts during the year under review.

### 3. Revenue

Below are some of the weaknesses noted:

- The figures in the revenue schedule depicted as deposits had posting errors thus overstating the revenue. A sample selected revealed a total of K14,826 were made as posting errors;
- From the K3.9 million in trust fees as revenues a total of K2.6 million was a direct transfer to the hospital fees trust account from OTSAR project account. In the absence of minutes and correspondences requesting the authorising and approving of the transfer I was not able to establish the correctness and appropriateness of such transfer;
- In the absence of source documents such as collector's statements, receipts, deposit slips, and trust account bank statements for internal revenue collection I was unable to ascertain that monies actually collected or due to be collected were sufficiently received, accounted and banked; and
- In most cases weekly deposits were common. There was not a management decision to deposit money collected from hospital fees on a weekly basis. As a result, revenues collected may have been prone to abuse and mismanagement.

### 4. Procurement Procedures and Payments

My review of the procurement procedures and payments revealed the following weaknesses:

- Formal appointment instruments for financial delegates, who have examined, certified and approved claims and their approved limitations (for Section 32 Officers) were not made available for my examination. In the absence of formal appointment instruments, I was unable to confirm the validity of persons who have acted on those positions during the year;
- Not obtaining required number of quotations;
- Accommodation rentals paid for contract officers were seen to be paid excessively against their allowable housing allowance as per their employment contracts;
- Instances of officers, including clinical contract officers, double-dipping from the government purse through the housing allowances. They lived in rental houses paid for by the hospital and were paid housing allowance at the same time which pose a very high risk of misuse and abuse of the limited funds of the hospital;
- Birth certificates or concessions for at least 3-4 dependents and or students under 18 years of age for each of the family were not sighted on nine instances of payments totalling K90,039 for recreation leave fares;
- Instances of payments totalling K196,446 had missing payment vouchers;
- A total of K121,730 was paid as legal fees during the year. I noted discrepancies relating to lawyer (individual) engaged being paid rather than the law firm, also no invoices and no engagement of service (formal agreement) between the hospital and the law firm were sighted; and
- Instances of payments totalling K119,729 revealed that the payment vouchers had no inspection reports, no completion reports and no job request form to validate these payments.

### 5. Cash Management

My review of the cash management process of the hospital revealed that:

- Cashbooks, ledgers and related records for both accounts had not been adequately

maintained;

- Monthly bank reconciliations for both accounts were either missing or not completed and were seen to be unsatisfactory; and
- Overall, necessary documentation, such as complete bank statements for the year along with monthly bank reconciliations, were not furnished. This posed a high risk for the potential abuse of funds and gross mismanagement.

#### Advance Management

My examination of the records and details of advances noted that:

- Instances of advances paid for travel expenses had not been acquitted with supporting documents of boarding passes and ticket butts from air service providers and valid receipts from accommodation and vehicle hire service providers to confirm the duration of duty travel and that services had actually been utilised for their intended purposes. Also, no supporting documents had been sighted to confirm the purpose of those travels that had been taken by officers on duty; and
- No advance register had been maintained.

#### **6. Asset Management**

There was no assurance that management has implemented good asset management practices or that the management maintained proper records of assets, purchases and disposals as follows:

- The Hospital has an extensive portfolio of fixed assets that had not been effectively managed nor appropriately safeguarded against theft, fire or vandalism through establishment of fixed assets register and appointment of custodians, or taking insurance;
- There was no evidence provided to suggest that there was any physical stock takes of assets undertaken during the year under review;
- Register for monitoring the costs involved in routine maintenances was not maintained; and
- In the absence of the fixed assets register I was unable to verify assets purchased during the year totalling K54, 360.20 and establish the status of two vehicles scheduled for disposal.

#### **7. Human Resource Management**

My review of payrolls, personnel files and related records revealed satisfactory outcomes except that as detailed below:

- Payrolls for pay 1-26 had not been received during the year under review and as such reconciliations of payrolls had not been done. Proper management of payroll was at risk of irregularities and even fraud without reconciliation. In the absence of the complete payroll and the reconciliations I could not establish the completeness and accuracy of the total salaries and allowances for hospital staff paid through the Alesco payroll;
- Prior approval of working overtime and subsequent claims were not properly handled by management to avoid bogus claims. Instances of overtime claims

totalling K31,842 had no prior approval by Heads of Sections for work done after official hours;

- Employment contracts for medical officer's both specialist and registrars have not been signed since 2010. As such, certain benefits obtained from the hospital were deemed as illegitimate and unwarranted;
- The Staff establishment structure detailing the base salary and other personal emoluments was not provided. As such, I was unable to confirm the staff base salary against the Public Service Pay Fixation Agreement 2013; and
- A total of forty-one unattached staff were paid salaries and allowances. This has placed unnecessary financial constraints on the hospital.

#### **5.11.3.4 Management Response**

The aforementioned observations on the financial statements and internal control weaknesses for the three years had been identified and communicated to the Chief Executive Officer and Management of the Hospital. I have highlighted the impacts of these observations and made recommendations for management considerations and improvements however, I have not received responses to these Management Letters as at the time of preparing this Report.

#### **5.11.3.5 Status of Financial Statements**

At the time of writing this Report in July 2014, the Modilon General Hospital has not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

## **5.12 MANUS PROVINCE**

### **5.12.1 Introduction**

This Audit Report covers the Manus Provincial Government, Lorengau Urban Local-level Government, Lorengau General Hospital Board and Business Arm's financial statements and transactions for the financial years 2011, 2012 and 2013.

### **5.12.2 Manus Provincial Government**

#### **5.12.2.1 Financial Statement –2011 to 2013**

I was not able to obtain absolute assurance on the accuracy and reliability of Manus Provincial Government 2011, 2012 and 2013 Annual Financial Statement disclosed balances, hence, a Disclaimer Audit Opinion was issued. I have noted significant errors, omissions, misstatements and unreliable internal control environments that materially affected the reported balances and consequently, the fund balance. Further, the financial statements presented were not signed and certified thereby presenting a scope limitation which affected the entire financial statements and their reported balances. My report to the Minister responsible also contained issues relating to the internal control environment as summarised in the paragraphs below.

#### **5.12.2.2 Control Environment**

##### **1. Corporate Governance**

The effectiveness of service delivery entirely depends on prudent corporate governance and that involves planning, directing and controlling of the Manus Provincial Government scarce resources in order to attain maximum output. Manus Provincial Government did not have in place a Corporate Plan with clearly identified corporate goals, objectives and strategies to enhance service delivery. I was not able to review procedures and mechanisms devised to deliver basic services to its people. Further, I was not able to test the integrity and reliability of Manus Provincial Government internal controls and risk management procedures. The onus now remains with those charged with corporate governance responsibilities to adopt a suitable corporate strategy or plan with clearly defined goals and objectives in order to drive Manus Provincial Government annual budgets, activities and scarce resources to achieve corporate goals and objectives.

##### **2. Work of Internal Audit**

The Internal Audit Unit (IAU) is a key administrative function that forms part of the corporate strategy to oversee the effectiveness of other functions and internal controls within the administration. The effectiveness of IAU in discharging their duties provides integrity to the internal controls that management can rely on them. The IAU of Manus Provincial Administration failed its duties by not producing any audit reports for the 2013 financial year. That indicates that the internal controls of Manus Provincial Government for the financial years 2011, 2012 and 2013 have not been appraised or reviewed for existence of control weaknesses. Further, a Provincial Audit Committee was not established in accordance with legislation to enhance the functions of IAU. I was not able to obtain absolute assurance on the reliability and integrity of Manus Provincial Government's internal control environment. The Chief Internal Auditor should ensure that they fulfill their duties in maintaining and upholding the integrity of the internal control systems of the Manus Provincial Administration.

### 3. Appropriation and Budget Management

The annual budget of Provincial Governments form part of the corporate strategy that is aligned to corporate goals set in the corporate plan. Annual budgets are approved through legislation hence actual applications must conform to or within the approved limits and intended purposes. I was not able to ascertain the legality of the Manus Provincial Government 2011, 2012 or 2013 Budgets. Furthermore, I could not perform analytical reviews to ascertain whether effective controls were in place to monitor and collect entire potential revenues in view of the following weaknesses:

- Instruments effecting legislative and ministerial approval were not certified and made available for my review to confirm the legality of the annual 2013 budget of K85,285,300;
- Effective revenue management policies and source data were lacking such that I was not able to ascertain whether potential revenue was collected or establish the causes of significant under collection of revenue estimates; and
- Due to lack of a Corporate Plan, I was not able to review budget performance and confirm whether the budget had any social and economic impacts.

It is the responsibility of the Budget Officers to formulate, implement and perform budget result evaluations and to ensure that budget approval documentation or complete documentation relating to the entire budgetary process is maintained and securely kept.

### 4. Revenue and Receivables

Revenue sources and management procedures should be adequately documented to ensure all potential revenue is effectively collected intact. Manus Provincial Government did not adopt revenue management policies and devised revenue control mechanisms during 2013 and recent prior years. I was not able to obtain absolute assurance on the monitoring and collection of potential revenues and effectiveness of the internal controls relating to collection and banking procedures. The revenue manager who is responsible for effective revenue management should ensure revenue management policy guidelines are developed and implemented for effective management of Provincial Government revenue.

### 5. Procurement Procedures

Prudent expenditure management is essential in order to enhance service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- The appointment Instruments pertaining to appointment of Section 32 Officers and other financial officers, such as certifying officer, examiner and requisition officer, were not provided for my review and verification of all payments authorised and processed during the year by those officers. The Provincial Treasurer should ensure that at all times the appointment instruments of financial delegates are available at the Treasury Office where payments are processed;
- The written quotations and delivery notes provided assurance that goods and services acquired were actually delivered at comparatively cheapest prices available. I was not able to ascertain whether goods and services were actually delivered at cheapest prices in instances where significant payments lacked support of quotations and delivery dockets. The procurement officers should ensure that minor procurement procedures are fully complied with;
- The personal bio-data, such as birth and marriage certificates, provide credible evidence in support of recreation leave and other employment related entitlements

claimed by employees. I was not able to ascertain the appropriateness of recreation leave entitlement payments totalling K643,541 which lacked necessary supporting data;

- Effective management of procurement of capital and maintenance works is essential to ensure scarce resources are properly controlled and directed to complete planned and budgeted activities. I was not able to ascertain whether procurement of capital and maintenance works was effectively managed during the year. Significant payments relating to capital and maintenance works lacked supporting documents such as signed contracts, scope of work, work inspection and certification reports and work completion certificates. The procurement officers should ensure that major procurement procedures are fully complied with; and
- An effective advance management system provided reasonable assurance that funds advanced were actually expended for the intended purposes. Manus Provincial Government did not maintain an advance register to record and monitor various advances given out during the year. I was not able to confirm whether advance management systems were effectively functioning. The officers responsible for advance management should ensure advance management policy guidelines must be adopted to address these issues.

## **6. Cash Management**

Prudent cash management practices are essential to reflect the Provincial Government's cash position or alternatively the fund balance at any point in time and to enable management makes cash management decisions. I was not able to establish the Manus Provincial Government cash position as at 31 December 2011, 2012 or 2013 due to distorted cashbook balances. The cashbook balances were affected by accounting errors that were not adjusted in the relevant accounting periods which had been accumulated over many years. The responsible Provincial Treasury officers should ensure that such errors do not repeat again and the outstanding errors must be cleared with permission from relevant authorities to reflect the actual bank and cashbook balances and consequently, the cash position.

## **7. Asset Management**

Effective asset management and usage would result in adequate service delivery. Proper asset control and monitoring would prevent fraudulent use of assets for personal gains, theft and reliable data would be available for relevant decisions regarding asset disposal and acquisition. I was not able to ascertain whether, Manus Provincial Government assets were adequately managed during 2011, 2012 and 2013 financial years. The key control procedures and documents, such as comprehensive asset registers and periodical stocktakes were lacking. The officers responsible for asset management should ensure asset management policies are adopted to effectively manage the Provincial Government assets to facilitate effective service delivery.

## **8. Trust Account Maintenance and Management**

Trust accounts were established and operated as directed by the Finance Minister or any other law. Trust Instruments provide in detail how the trust fund should be governed to effectively serve its intended purpose. Manus Provincial Government operated a total of sixteen non-bank trust accounts with opening and closing balances of K2,788,737 and K18,640,095 respectively. Furthermore, three significant payments were made from these trust accounts, two totalling K600,000 and K994,000 to two different Provincial Government business arm's while another K1,020,000 to a private company. I was not provided the Trust Instruments for each of these trust funds to confirm whether the trust

accounts were operated for the intended purposes and also to confirm which of these form part of the Provincial Government fund.

## **9. Human Resource Management**

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated human resources can perform to their best and provide quality service. I was not able to ascertain the effectiveness of Manus Provincial Administration workforce due to following deficiencies:

- Employment contracts for senior officers were drafted and signed without any technical input from the Department of Personnel Management. Further, the senior officers pay rates per payrolls were not consistent with the rates shown on staff establishment registers. I was not able to confirm whether senior officers were correctly paid salaries and allowances using applicable rates approved by the Department of Personnel Management. Personnel officers responsible for employment contracts and payroll should regularly review and reconcile employment contracts, personal files and actual payrolls to ensure employees are correctly paid what is legally due to them; and
- Adequately maintained personal files ensure accuracy in calculation of employment benefits and entitlements. I was not able to ascertain the correctness and the validity of entitlements claimed and the data used for determining the entitlements paid respectively. The personal files provided for my inspection lacked personal bio-data, salary history cards, pay variation advices, etc. The Human Resource Manager should commit extra effort to ensure all personal files are updated regularly to ensure salary and other employment entitlements are correctly processed and paid.

## **10. Internal Control Weaknesses**

Those charged with corporate governance have not exercised responsibly in discharging their duties of care in reviewing and monitoring internal controls. A corporate strategy was not adopted to control and direct scarce resources sustainably to achieve corporate goals and objectives. The effective management of annual budgets, cash, assets, procurements, human resources and investments were totally lacking. The appropriate management tool for monitoring effectiveness of the internal controls, the Internal Audit Unit was not producing audit reports to support corporate management decisions. Further, the unadjusted accounting errors existing in the system distort Manus Provincial Government cash position. I was not able to obtain absolute assurance on the internal controls of Manus Provincial Government, thus on the credibility and reliability of financial statement disclosures. The Provincial Governor and Provincial Administrator's failure to inform stakeholders on budget and financial performance during the fiscal years in the Annual Financial Statements clearly demonstrated poor corporate governance.

### **5.12.2.3 Status of Financial Statements**

Annual Financial Statements for 2011, 2012 and 2013 received were unsatisfactory with similar issues, hence all statements were disclaimed.

### **5.12.3 Lorengau Urban Local-level Government**

#### **5.12.3.1 Financial Statements –2011 to 2013**

I was not able to obtain absolute assurance on the accuracy and reliability of Lorengau Urban Local-level Government 2011, 2012 and 2013 Annual Financial Statement disclosed account balances, hence, a Disclaimer Audit Opinion was issued. I have noted



significant errors, omissions, misstatements and unreliable internal control environments that materially affected the reported balances and consequently, the fund balance. Further, the financial statements presented were not signed and certified thereby presenting a scope limitation which affected the entire financial statements and their reported balances. My report to the Minister responsible also contained issues relating to the internal control environment as summarised in the paragraphs below.

### **5.12.3.2 Control Environment**

#### **1. Corporate Governance**

The effectiveness of service delivery entirely depends on prudent corporate governance and that involves planning, directing and controlling of the scarce resources of the Lorengau Urban Local-level Government (Lorengau ULLG) to attain maximum output. Lorengau ULLG did not have in place a corporate plan with clearly identified corporate goals, objectives and strategies to enhance service delivery. I was not able to review procedures and mechanisms devised to deliver basic services to its people. Further, I was not able to test the integrity and reliability of the ULLG internal controls and risk management procedures. The onus now remains with those charged with corporate governance responsibilities to adopt a suitable corporate strategy or plan with clearly defined goals and objectives in order to drive the ULLG annual budgets, activities and scarce resources to achieve corporate goals and objectives.

#### **2. Work of Internal Audit**

The Internal Audit Unit (IAU) is a key administrative function that forms part of corporate strategy to oversee the effectiveness of other functions and internal controls within the administration. The effectiveness of IAU in discharging their duties provides integrity to the internal controls that management can rely on them. The IAU of Manus Provincial Administration failed its duties by not producing any audit reports for the financial years 2011, 2012 and 2013. That indicates that the internal controls of Lorengau ULLG for some years including 2013 have not been appraised or reviewed for existence of control weaknesses. Further, a Provincial Audit Committee was not established in accordance with legislation to enhance the functions of Internal Audit Unit. I was not able to obtain absolute assurance on the reliability and integrity of Lorengau ULLG internal control environment. The Chief Internal Auditor should ensure that they fulfill their duties in maintaining and upholding the integrity of the internal control systems of the Manus Provincial Administration including Lorengau ULLG.

#### **3. Appropriation and Budget Management**

The annual budget of Lorengau ULLG forms part of the corporate strategy that is aligned to corporate goals set in the Corporate Plan. Annual budgets were approved through legislation hence actual applications must conform to or within the approved limits and intended purposes. I was not able to ascertain the legality of the Lorengau ULLG 2011, 2012 or 2013 Budgets. Furthermore, I could not perform analytical reviews to ascertain whether effective controls were in place to monitor and collect entire potential revenues in view of the following weaknesses:

- Effective revenue management policies and source data were lacking such that I was not able to ascertain whether potential revenue was collected or establish the causes of significant under collection of revenue estimates; and
- Due to the lack of a Corporate Plan I was not able to review budget performance to confirm whether the budget had any social and economic impacts.

The budget officers responsible for formulating, implementing and performing result evaluations should ensure that budget approvals and complete documentation relating to the entire budgetary process must be securely kept for reference purposes.

#### **4. Revenue and Receivables**

Revenue sources and management procedures should be adequately documented to ensure all potential revenue is effectively collected intact. Lorengau ULLG did not adopt revenue management policies or devise revenue control mechanisms during 2013 and recent prior years. I was not able to obtain absolute assurance on the monitoring and collection of potential revenues and effectiveness of the internal controls relating to collection and banking procedures. Those charged with effective revenue management should ensure revenue management policy guidelines are developed and implemented for effective management of Lorengau ULLG revenue.

#### **5. Procurement Procedures**

Prudent expenditure management is essential in order to enhance service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- The appointment instruments pertaining to appointment of Section 32 Officers and other financial officers, such as certifying officer, examiner and requisition officer, were not provided for my review and verification of all payments authorised and processed during the year by those officers. The District Treasurer should ensure that at all times, the Appointment Instruments of financial delegates are available at the Treasury Office where payments are processed;
- The written quotations and delivery notes provide assurance that goods and services acquired were actually delivered at comparatively cheapest available prices. I was not able to ascertain whether goods and services were actually delivered at cheapest prices in stances where significant payments lacked support of quotations and delivery dockets. The procurement officers should ensure that minor procurement procedures are fully complied with;
- Adequately maintained personal files provide credible evidence in support of salary, wages and other entitlements paid to employees. I was not able to ascertain the appropriateness of casual wages totalling K29,410 which lacked necessary supporting data; and
- An effective advance management system provides reasonable assurance that funds advanced were actually expended for the intended purposes. Lorengau ULLG did not maintain an advance register to record and monitor various advances given out during the years 2012 and 2013 totalling K27,595 and K30,978 respectively. I was not able to confirm the effectiveness of the advances management system. The officers in charge of advance management should ensure advance management policy guidelines are put in place to address these issues.

#### **6. Cash Management**

Prudent cash management practices are essential to reflect the Lorengau ULLG cash position or alternatively the fund balance at any point in time and to enable management makes cash management decisions. I was not able to establish the Lorengau ULLG cash position as at 31 December 2011, 2012 or 2013 due to distorted cashbook balances. The cashbook balances were affected by accounting errors that were not adjusted in the relevant accounting periods. The District Treasury officers should ensure that such errors do not repeat again and the outstanding errors must be cleared with permission from

relevant authorities to reflect the actual bank and cashbook balances and consequently, the cash position.

## **7. Asset Management**

Effective asset management and usage would contribute to adequate service delivery. Proper asset control and monitoring would prevent fraudulent use of assets for personal gains, theft and reliable data would be available for relevant decisions regarding asset disposal and acquisition. I was not able to ascertain whether, Lorengau ULLG assets were adequately managed during 2011, 2012 and 2013 financial years. The key control procedures and documents, such as comprehensive asset registers maintained were not adequate and incomplete, periodical stocktakes were not taken. The officers responsible for asset management should ensure asset management policies are adopted to effectively manage the Lorengau ULLG assets to facilitate effective service delivery.

## **8. Internal Control Weaknesses**

The internal control weaknesses noted in the Lorengau ULLG administration were of no different to Manus Provincial Government Administration that effective corporate governance was lacking. Corporate planning, implementing, controlling and regular reviewing of internal controls were not done. Poor and ineffective management of annual budgets, cash, assets, procurements, human resources and investments were prevalent. The appropriate management tool for monitoring effectiveness of the internal controls, the Internal Audit Unit was not producing audit reports to support corporate management decisions. Further, the unacceptable accounting practices that have distorted cashbook balances remain in the accounting system distorting Lorengau ULLG cash position. I was not able to obtain absolute assurance on the internal controls of Lorengau ULLG, thus the credibility and reliability of financial statement disclosures. The Town Mayor and District Administrators failure to inform stakeholders on budget and financial performance during the fiscal years in the Annual Financial Statements clearly demonstrated poor corporate governance.

### **5.12.3.3 Status of Financial Statements**

Annual Financial Statements for 2011, 2012 and 2013 received were unsatisfactory with similar issues, hence all statements were disclaimed.

### **5.12.4 Lorengau Hospital Board**

#### **5.12.4.1 Financial Statements – 2013**

The Annual Financial Statements for 2013 were not yet prepared and submitted for audit at the time of this Report.

#### **5.10.4.1 Financial Statements –2011 and 2012**

I was not able to obtain absolute assurance on the accuracy and reliability of Lorengau General Hospital Board(Lorengau GHB) 2011 or 2012 financial statements disclosed account balances, hence, an adverse audit opinion was issued. The disclosed account balances could not be attested in the absence of accurate and reliable source records and data. My report to the Minister responsible also contained issues relating to the internal control environment as summarised in the paragraphs below.

## 5.12.4.2 Control Environment

### 1. Work of Internal Audit

The Internal Audit Unit (IAU) is a key administrative function that forms part of the corporate strategy to oversee the effectiveness of other functions and internal controls within the administration. The effectiveness of IAU in discharging their duties provides integrity to the internal controls that management can rely on them. An Internal Auditor position created in the Lorengau GHB structure was not filled by a suitable person at the time of this audit. That indicates that the internal controls of Lorengau GHB for some years, including 2013, have not been appraised or reviewed for existence of control weaknesses. Those charged with governance should ensure an appropriately qualified person is recruited to perform the internal audit functions.

### 2. Appropriation and Budget Management

The annual budget of Lorengau GHB forms part of the National Department of Health budget that is approved and funded by the National Parliament. It is driven by National Health Department strategies and goals. As at the time of these audits, the Lorengau GHB had not adopted a Corporate Plan to integrate it with the National Health Department plans for effective implementation and monitoring of its co-functions. Essentially, budget formulations guided by home grown strategies are easily manageable through regular performance reviews. I was not able to ascertain the achievement of the Lorengau GHB budget in view of following irregularities:

- Effective monitoring and reconciliation of payrolls were lacking. I could not perform analytical procedures to determine actual expenditures incurred against budget estimates. The payroll officers should perform regular payroll reconciliation to ensure payroll errors are corrected to avoid fraudulent payments;
- Commitment ledgers were not maintained to monitor expenditures in order to avoid over and under spending of budget estimates. In 2012 I have noted over expenditures in two votes by K90,905 and under spending in twelve votes by K2,413,697 without proper approvals during the year. The budget officers should perform regular budget performance reviews to ensure actual spending does not deviate from budgeted activities and budget ceilings; and
- The Hospital Board did not formulate and approve a budget for their internal revenues collected through the user fees and controlled through the Fees Trust Account. I was not able to ascertain whether legislative requirement have been adhered to in collection and expending of internal revenues. The Hospital Board should ensure that relevant legislation governing activities of the Lorengau GHB are fully complied with including those relating to financial affairs.

### 3. Revenue and Receivables

Revenue sources and management procedures should be adequately documented to ensure all potential revenue is effectively monitored and collected intact. Lorengau GHB did not adopt revenue management policies and devise revenue control mechanisms during the years resulting in poor and ineffective revenue management practices. Revenue ledgers and cashbook were not adequately maintained and updated. Further, significant procedural weaknesses were noted in the collection and banking procedures. I was not able to ascertain whether potential revenue was effectively monitored, collected and accounted for. The revenue officer should ensure that policy guidelines are developed to document revenue sources and effectively collect potential revenue intact.

#### **4. Procurement Procedures**

Prudent expenditure management is essential in order to enhance service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- The appointment instruments pertaining to appointment of Section 32 Officers and other financial officers, such as certifying officer, examiner and requisition officer, were not provided for my review and verification of all payments authorised and processed during the year by these officers. The Director Corporate Services should ensure that at all times the appointment instruments of financial delegates are available at the Accounts Office where payments are processed; and
- Almost all payments lacked supporting documentation. Further, contract payments in 2012 of K80,352 for security services were not supported with a valid contract agreement. I was not satisfied that expenditures were adequately managed during the year. The Hospital accounts staff should ensure that legislative requirements are complied with in expending public funds.

#### **5. Cash Management**

Prudent cash management practices are essential to reflect the Lorengau GHB's cash position or alternatively the fund balance at any point in time and to enable management to make cash management decisions. I was not able to establish the Lorengau GHB cash position as at 31 December 2011 or 2012 due to distorted cashbook balances and poor and incomplete cashbook maintenance. The Hospital accounts staff should ensure that cashbooks are appropriately adjusted to reflect the Hospital Board's cash position.

#### **6. Asset Management**

Effective asset management and usage would contribute to improved service delivery. Proper asset control and monitoring would prevent fraudulent use of assets for personal gains, theft and reliable data would be available for relevant decisions regarding asset disposal and acquisition. I was not able to ascertain whether Lorengau GHB assets were adequately managed during 2011 and 2012 financial years. Further, assets totalling K46,291 purchased during 2012 could not be traced to the asset registers furnished. The key control procedures and documents, such as comprehensive asset registers, were not adequate and incomplete, periodical stocktakes were not taken. The Asset Officer should ensure asset management policies are adopted to effectively manage the Lorengau GHB assets to facilitate effective service delivery.

#### **7. Trust Account Maintenance and Management**

The Lorengau GHB Trust Account was used to control user fees collected from patients. The application of funds raised and held in this account are intended for patient care alone and not other operational expenses such as wages, etc. Due to same internal control weaknesses noted above, I was not able to assess the accuracy in terms of compliance with the Trust Deed and the cash position of this Trust Account. The accounts staff should review the transactions conducted in this Trust Account with the Trust Instrument for conformity and compliance.

#### **8. Human Resource Management**

Effective Human Resource Management is essential to improve service delivery. Competent and highly motivated human resource can perform to their best and provide quality service. I was not able to ascertain the effectiveness of Lorengau GHB workforce due to following deficiencies:

- Employment contracts for senior officers were not properly signed and most expired contracts were not renewed at the time of my inspection. Further, personal files were not updated with bio-data, tax declarations and salary variations. I was not able to ascertain the correctness and the validity of entitlements paid during the year;
- Most of the DPM approved positions in the existing Lorengau GHB structure were not fully occupied. Inadequate staffing could impact service delivery. I was not able to ascertain the reasons as to why the approved and funded positions were not occupied in the absence of management representation;
- Significant expenditures incurred on casual wages were not supported with a list of casuals maintained on payroll and the rates applied to compute the wages and other allowances paid. Similarly, I was not able to verify the correctness of gratuity payments in 2012 of K48,292 made to contract officers in the absence of adequate internal controls and supporting documentation; and
- The personal bio-data, such as birth and marriage certificates, provide credible evidence in support of recreation leave and other employment related entitlements claimed by employees. I was not able to ascertain the appropriateness of recreation leave entitlement payments in 2012 totalling K96,147 which lacked necessary supporting data.

The Personnel Management Section should ensure proper human resource management policies are developed and enforced in order to effectively address all personnel matters so that in turn the satisfied workforce can deliver better health services.

## 9. Internal Control Weaknesses

Those charged with corporate governance have not exercised responsibly in discharging their duties of care in reviewing and monitoring internal controls. An integrated corporate strategy was not adopted to control and direct scarce resources sustainably to achieve National Health Department goals and objectives. The effective management of annual budgets, cash, assets, procurements and human resources were totally lacking. An Internal Auditor was not recruited to monitor effectiveness of the internal controls. Further, existence of accounting errors and unreliable accounting records distorts Lorengau GHB cash position. I was not able to perform most planned tests hence, unable to obtain absolute assurance on the internal controls of Lorengau GHB, thus the credibility and reliability of financial statement disclosures.

### 5.12.4.3 Status of Financial Statements

Annual Financial Statements for 2011 and 2012 received were unsatisfactory with similar issues; hence both statements were issued an adverse opinion. The 2013 Annual Financial Statements were not ready at the time of this report as such; it will be covered in the 2014 Part 3 report to Parliament.

### 5.12.5 Manus Fishing Corporation Ltd

The Corporation was established by the *Manus Fishing Corporation Act 2003* with the objective and functions as stipulated under the relevant Sections of the Act. The Corporation is 100% owned by the Provincial Government. The Corporation was said to have a fleet of two vessels, however, without any return to the Provincial Government. Documents such as share certificate, certificate of incorporation were not available for my review. At the time of preparing this Report in July 2014 the financial statements had not been submitted for audit.

### **5.12.6 Manus Shipping Authority**

The Authority was established by the *Manus Provincial Shipping Authority Act 1994*. The Authority was reported to have operated a fleet of three vessels. Out of these, only one vessel is said to be in operation since 2003. Profit from the operation is shared between the Provincial Government and the operator net of running costs. At the time of preparing this Report in July 2014 the company had not submitted any recent financial statements for audit.

### **5.12.7 Kei Beseu Kampani Ltd**

Documentation obtained indicated that the Manus Provincial Government holds 522 shares and is a single majority shareholder at 34% while the remaining shareholders are various landowner groups. Copies of relevant documentation including the Company's Act and share certificate were not available for my review. The previous as well as the current year audit of the accounts and records have been conducted by a private accounting firm under private arrangement. Consequently, I was unable to comment on the operation and financial position of the company for the year-ended 31 December 2011, 2012 and 2013 as I was not a party to the audit of the accounts and records of the company for the years then ended. At the time of preparing this Report in July 2014 the company had not submitted any recent financial statements for audit.

### **5.12.8 Lorengau Hotel Ltd**

This Hotel according to records was incorporated in October 1974 with the Manus Provincial Government share of 50% to 80% with the remaining balance shared between the Kei Beseu Kampani Ltd and the Local-level Governments. However, due to the lack of any documentation, the actual percentage ownership could not be ascertained. The previous as well as the current year audit of the accounts and records have been conducted by a private accounting firm under private arrangement. Consequently, I was unable to comment on the operation and financial position of the company for the years ended 31 December 2011, 2012 and 2013 as I was not a party to the audit of the accounts and records of the company for the years then ended. At the time of preparing this Report in July 2014 the company had not submitted any recent financial statements for audit.

## 5.13 MILNE BAY PROVINCE

### 5.13.1 Introduction

The Report on the Milne Bay Province covers the Milne Bay Provincial Government, Alotau Urban Local-level Government, Milne Bay Provincial Health Authority and their Business Arm's financial statements and transactions for the financial years 2011, 2012 and 2013 respectively as the case may be.

### 5.13.2 Milne Bay Provincial Government

The Milne Bay Provincial Government had submitted its financial statements for 2011 and 2012 while 2013 financial statements were not available for audit. The field work associated with the audit of the financial statements for 2011 and 2012 and an interim audit of the control environment for 2013 had been completed with Management Letters issued. The audit opinion reports for 2011 and 2012 were issued to the Ministers concerned and other relevant bodies.

#### 5.13.2.1 Financial Statements– 2013

The Provincial Government had not submitted its financial statements for the year ended 31 December 2013 at the time of the audit. The interim audit of the accounts and records was completed without financial statements. The control environment issues noted were similar to the years 2011 and 2012 hence, only the 2013 issues are reported below.

#### 5.13.2.2 Control Environment

##### 1. Corporate Governance

- The Milne Bay Provincial Government had its five-year Corporate Plan covering the 2011 to 2015 period as well as the Provincial Development Policies for the period 2006 to 2015. I was however, not provided documentation to indicate whether the provincial management team actually implemented the plan through annual budgets, monitoring implementation and evaluation of outcomes against key result areas;
- The Provincial Assembly meeting minutes for 2013 were in a recorded tape yet to be written, certified and filed. The same explanation was provided to audit in the 2011 and 2012 audits; and
- The Provincial Executive Council meeting minutes and resolutions for the year were well maintained.

##### 2. Work of Internal Audit

- The Internal Audit Unit had an excellent annual audit plan for 2013 with all necessary details as required;
- The Unit was under equipped with resources including man power, budget support and staff competence to enable effective performance of its responsibilities; and
- The Unit could only manage to produce one audit report during the year in relation to Misima High School covering the period 2012 to August 2013.

##### 3. Appropriation and Budget Management

The Milne Bay Provincial Government's *2013 Appropriation Act No. 03* of 2012 authorised the revenue and expenditure budget estimates of K167,613,500. The 2013



provincial budget was duly passed and approved. The budget included the Provincial Services Improvement Program (PSIP) and Local-level Government Services Improvement Program (LLGSIP) funds totalling K20,000,000 and K8,000,000 respectively. My review of the budget revealed following matters:

- Revenue reports stated total grant revenues as K101,427,231 against the budgeted revenue of K149,234,100, an under collection of K47,806,869. Furthermore, funds totalling K10,250,000 were released for three unbudgeted activities while one of the votes for development revenues was under funded by K50,000,000. The annual budget was not revised to incorporate these significant variations;
- The Provincial Government had budgeted its internal revenues as K18,379,400 however, only managed to collect K12,423,537, a short fall of K5,955,863 during the year. Reasons for under collection could not be ascertained due to absence of effective revenue management policy guidelines and control procedures;
- Expenditures out of grants were budgeted at K149,234,100 against actual expenditure of K90,317,643, an under expenditure of K58,916,456. Prudent cash management practices were noted to be maintained to ensure that expenditures were proportionally kept within the limits of available funds; and
- Although the budget settings were consistent with the identified key result areas of the Provincial Government's Integrated Provincial development plan 2011-2015, the budget implementation and evaluation of outcomes against set targets could not be ascertained in the absence of budget performance review reports, notes and other relevant documentation.

#### **4. Revenue and Receivables.**

- Delays in banking of daily collections for up to 45 days thus, exposing public funds to theft and fraud;
- My physical cash verification revealed cash reimbursements from outlying cash offices unduly held in the Treasury Cash Offices over long periods without proper and prompt examination and verification of the cash. The practice had the potential to causing delay in normal business activities in the districts and or exposing cash to theft and fraud; and
- Review of revenue records revealed that Milne Bay Provincial Government recorded significant shortfall in actual revenues against budget. In the absence of effective revenue management policy guidelines, control procedures, and complete warrant authorities I could not review and reliably establish the cause of the significant under collection.

#### **5. Procurement Procedures**

##### Paid Accounts

There were instances of supporting documentations were missing or the delivery dockets and other receipts not available for audit scrutiny.

##### Capital Works and Maintenance

The perusal of the expenditure transactions revealed that expenditures totalling K14,459,564 were incurred on capital works and maintenance. Most of the small to medium size projects were undertaken in-house by the Provincial Government's Engineering Division and, as such, huge material purchases were noted. Review of controls over procurement and expenditure approval procedures revealed a number of issues including:

- Payments totalling K7,030,020 were not supported with Provincial Supply and

Tenders Board(PSTB) meeting minutes and or contract documentation;

- PSTB meeting minutes for the year under review were not provided for audit inspection. As such, I could not further comment on matters relating to tendering procedures; and
- Furthermore, effective project supervision, constant monitoring and reporting were lacking. Consequently reports such as project inspection and verification, completion reports and certificates were not made available for audit inspection.

#### Grants and Subsidies

The audit examination of the expenditure records revealed grants and subsidies totalling K20,374,545 were paid to various entities and organisations such as schools, Local-level Governments, District Treasuries and other implementing agencies during the year. All funds were satisfactorily acquitted except for copra price subsidy grants totalling K251,600 paid to a local export company.

#### Advances Management

- Officers were issued additional and subsequent advances totalling K481,933 without acquittal of the previous amounts; and
- Advances totalling K880,811 remained unacquitted at the time of the audit in spite of repeated reminder advices issued to advance holders.

### **6. Cash Management**

The Milne Bay Provincial Government maintained two operating bank accounts and two separate cashbooks to conduct its financial transactions for Grant and Internal Revenues respectively. The inspection of the bank accounts together with related records revealed that the closing bank and cashbook balances reported above were not reconciled due to the application of wrong bank reconciliation procedures.

### **7. Assets Management**

- Assets registers were maintained by the respective divisions of the Provincial Administration. A centralised Master Assets Register was only recently created however, at a very slow pace. Consequently, assets purchased during the year totalling K573,760 had not been registered on the master register at the time of the audit; and
- Audit review of documents by the Provincial Lands Division showed that the Milne Bay Provincial Government did not hold land titles to a number of properties (with claimed ownership and had been collecting rentals from), and properties titles and files on several properties were missing.

### **8. Investments**

Investment details including costs of the investments and net worth of latest balance sheets relating to Milne Bay Properties Ltd and other investments were not available. Neither the Investment Registers nor Certificates were provided for audit review.

### **9. Trust Accounts Maintenance and Management**

The Milne Bay Provincial Government operated a total of seventy non-bank Trust Accounts in its PGAS system. Most of these Trust Accounts had been operated under the old BMS system and had been dormant for many years. The attempt by the Provincial Treasury to obtain approval and advice from the Department of Finance to clear the

inactive accounts from the PGAS system had not been well responded to. Furthermore, the Trust Instruments relating to these Trust Accounts were not made available for audit review and inspection.

## 10. Human Resource Management

- Audit perusal of the fourth quarter staff establishment register revealed that there were thirty-nine unattached officers on the payroll and sixty-nine funded positions remained vacant; and
- Personal files for a number of officers were not available for audit inspection while employment contracts for two contract officers were also not available for audit checks.

## 11. Services Improvement Program (SIP)

- The Milne Bay Provincial Government had received PSIP grants totalling K20,000,000 from the National Government during the year under review. As at 31 December 2013 expenditure of K12,556,218 was made. The unspent or the balance of the K20,000,000 totalling K7,443,782 were carried over to 2014 as these funds were committed to projects that were yet to be completed. Furthermore, the detailed expenditure of these funds were not covered in this audit however, a separate audit will be done by this office to verify this expenditure; and
- Similarly, LLGSIP funds totalling K8,000,000 were remitted through the Provincial Government Grant Account. The audit of these funds will also be covered in a separate audit.

### 5.13.2.3 Management Responses

The audit findings on the internal control weaknesses had been communicated to the Provincial Administrator with related risk impacts and recommendations for improvements. At the time of preparing this Report, I have however, not received responses to the Management Letter.

### 5.13.2.4 Financial Statements –2011 and 2012

My audit opinion reports on the Milne Bay Provincial Government for the years 2011 and 2012 to the Ministers concerned and other relevant bodies under the *Audit Act* and the *Organic Law* were issued in May and June 2014 respectively. The reports contained similar Disclaimer of Opinions hence, only the 2012 report is reproduced as follows.

#### “Basis for Disclaimer Opinion

##### Presentation of Financial Statements

The financial statements of Milne Bay Provincial Government for the year ended 31 December 2012 fully complied with the formats prescribed by the Finance Instructions.

##### Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank balance of K18,919,384 and consequently on the financial position of Milne Bay Provincial Government as at 31 December 2012 due to the following reasons:

- The accumulated opening Fund Balance of K14,906,290 contained inherited errors brought forward from previous years; and

- The fair market values or the net realisable value of investments at a cost of K469,002, as reported in 2011, were not established and disclosed in the financial statement. Further, costs and market values of other related entities were also not established and reported accordingly.

#### Lending and Loan Guarantees

I was unable to confirm the accuracy of the Provincial Government's lending and loan guarantees due to the following issues:

- The relevant statement was inaccurately stated as nil balance. The Provincial Government loan of K2,186,289 to Milne Bay Properties Ltd in prior years has not been disclosed in the financial statements; and
- A potential liability of K50,000 arising from the MOU signed between the Milne Bay Provincial Government, National Development Bank and Oil Palm Industry Corporation in the previous years for village oil palm projects was not disclosed.

#### Assets

The relevant Appendix to the financial statements reported total assets as K101,095. My review of the expenditure records however, revealed an accumulative value of assets totalling K11,268,745 for the years to date.

#### **Disclaimer of Opinion**

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I was unable to express an opinion on the Provincial Government's financial statements for the year ended 31 December 2012."

#### **5.13.2.5 Status of Financial Statements**

The Milne Bay Provincial Government did not submit its financial statements for 2013 for my inspection and audit. However, the interim audit on the control environment had been completed in the absence of the financial statements and management letter issued as reported above.

### **5.13.3 Alotau Urban Local-level Government**

#### **5.13.3.1 Introduction**

The Alotau Urban Local-level Government (ULLG) had submitted its financial statements for 2011 and 2012 while 2013 financial statements were not available for my inspection and audit. The field work associated with the audit of the financial statements for 2011 and 2012 and an interim audit of the control environment for 2013 had been completed with Management Letters issued. The audit opinion reports for 2011 and 2012 were issued to the Ministers concerned and other relevant bodies.

#### **5.13.3.2 Financial Statements – 2013**

The Alotau ULLG did not submit its financial statements for 2013 at the time of the audit. The interim audit of the accounts and records was completed without financial statements. The control environment issues noted were similar to the years 2011 and 2012 hence, only the 2013 issues are reported below.

### 5.13.3.3 Control Environment

#### 1. Corporate Governance

- The Alotau ULLG did have a Corporate Plan however, it lapsed in 2012. The ULLG was working on its new plan at the time of the audit; and
- The ULLG held only one meeting each by the ULLG Assembly and the Council Executive Committee. The meeting minutes were however, not duly signed.

#### 2. Work of Internal Audit

The Internal Audit Unit of Milne Bay Provincial Administration had continuously failed its obligation to conduct periodic internal audit checks into the routine operations of the Alotau ULLG despite previous audit recommendations advising internal audits to be conducted regularly.

#### 3. Appropriation and Budget Management

The Alotau ULLG had its approved budget of K1,666,000 for the 2013 financial year. The ULLG had only received revenue of K1,363,409 with a total underspend of K285,988 during the year. The under-expenditure meant delivery of goods and services were not fully implemented. Further, the revenue shortfalls indicated the ULLG's inability to collect and or unrealistic revenue estimates.

#### 4. Revenue and Receivables.

There were major shortfalls in garbage collection and disposals, sale of assets and land rates and building tax revenues. The following other deficiencies were also noted in relation to debtors:

- Debtors records were not maintained to account for all receivables; and
- Total revenue of K1,392,490 from garbage rates and land rates was yet to be collected at the time of the audit; Furthermore, the debt recording system in use was deficient in that it could only show total cumulative amounts owed but not the yearly transactions.

#### 5. Procurement Procedures

##### Paid Accounts

- Required quotations were not obtained prior to the purchases of goods and services;
- Payments totalling K86,397 for town cleaning and related activities lacked evidence to indicate whether payments were actually received by the service providers, particularly the individuals, and whether correct and approved rates were applied.
- Fuel expenses during the year amounted to K53,076. It was noted that no evidence of reconciliation or acquittals to ensure that only the authorised vehicles were refueled.

##### Grants and Subsidies

Payments totalling K53,370 as financial assistance, commitments, cash advances and pledges lacked proper policy in place for the selection criteria and for the purpose of providing assistance. Furthermore, no disbursement statements/accountability reports or acquittals were sighted for all those payments.

### Advances Management

The Alotau ULLG did not maintain an advance register during the year. Examination of the records revealed a total of K37, 922 paid as travel allowances and cash advances to individuals during the year. A balance of K16,530 remained unacquitted at year end without any recovery actions taken.

### **6. Cash Management**

The bank statement balance of K723,077 was reconciled to the cashbook balance of K638,922 as at 31 December 2013. However examination of the cashbook, monthly bank reconciliations and bank statements of Alotau ULLG Operating Account revealed un-presented and therefore stale cheques dating back to 2010 not written back to the cashbook and cleared.

### **7. Assets Management**

- The Alotau ULLG had spent over K33,000 in assets during the year. It had however, not maintained a proper assets register resulting in number of assets not recorded in the register. Other variances of assets values also noted between different records; and
- The ULLG further did not conduct any physical stocktake of its assets to ensure existence and conditions of the assets.

#### **5.13.3.4 Financial Statements –2011 and 2012**

My audit opinion reports on the Alotau ULLG for 2011 and 2012 to the Ministers concerned and other relevant bodies under the *Audit Act* and the *Organic Law* were issued. The reports contained similar Disclaimer of Opinions hence, only the 2012 report is reproduced as follows.

#### **“Basis for Disclaimer Opinion**

##### Presentation of Financial Statements

The Financial Statements of Alotau ULLG for the year ended 31 December 2012 fully complied with the format prescribed by the Finance Instructions except that it did not include the comparative balances for the 2011 financial year.

##### Cash Balances

The ULLG’s 2012 revenue fund balance of K352,934 was represented by the reconciled bank balance of K352,934 as at 31 December 2012.

##### Receipts and Payments

The receipts and payments for 2012 were fairly disclosed in the financial statements except for the reconciling items in the bank reconciliation statements that had not been taken up in the ledgers and cashbook.

#### **Disclaimer of Opinion**

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I was unable to express an opinion on the Alotau ULLG financial statements for the year ended 31 December 2012.”

### 5.13.3.5 Status of Financial Statements

The Alotau ULLG did not submit its financial statements for 2013 for my inspection and audit. However, the interim audit on the control environment had been completed in the absence of the financial statements and a Management Letter issued as reported above.

## 5.13.4 Mine Bay Provincial Health Authority

### 5.13.4.1 Introduction

The Milne Bay Provincial Health Authority had submitted its financial statements for 2011 and 2012 while 2013 financial statements were not available for my inspection and audit. The field work associated with the audit of the financial statements had been completed with Management Letters and audit opinion reports issued.

### 5.13.4.2 Financial Statements – 2011 and 2012

My audit opinion reports on the Mine Bay Provincial Health Authority for 2011 and 2012 to the Ministers concerned and other relevant bodies under the *Audit Act* were issued. The reports contained similar Qualified Audit Opinions hence, only the 2012 report is reproduced as follows.

#### “Basis for Qualified Opinion

##### Presentation of Financial Statements

The financial statements of Milne Bay Provincial Health Authority for the year ended 31 December 2012 fully complied with the formats prescribed by the Finance Instructions.

##### Cash Balances

The limitation of scope arising from errors in the cashbook balances expressed in previous audit reports had not been corrected in the current year books. Consequently, the closing cash balances of K6,300,167 for the main operating account and K2,025,933 for the trust account could not be ensured for their accuracy, reliability and completeness.

##### Assets

I was not able to confirm the accuracy of the fixed assets totalling K3,245,050 shown in the financial statements due to inadequate maintenance of the assets register and lack of detailed information provided on assets purchases, custodian and condition of assets as at year end.

##### Others Balances

I was not able to confirm the accuracy of various other balances at year end including receivables of K5,018, advances of K42,176, inventory of K9,940 and liabilities of K637,747 disclosed in the Notes to the financial statements due to a lack of appropriate supporting source records provided for my review.

#### Qualified Opinion

In my opinion, except for the effects of the matters described in the qualification paragraphs above, the financial statements of Milne Bay Provincial Health Authority for the year ended 31 December 2012:

- Give a true and fair view of the financial position and the results of its operations for the year then ended in accordance with the Finance Instructions; and
- With exception of instances of non-compliance described under Other Matters, the financial statements have been prepared in accordance with the *PFMA*. ”

### **Other Matters**

In accordance with the *Audit Act*, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significances.

The Authority did not prepare and submit its financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December preceding, resulting in breaches of Section 63(2) and Section 63(4) of the *PFMA*.

#### **5.13.4.3 Control Environment**

My audit Management Letters for the years 2011 and 2012 contained similar significant control issues hence, only the 2012 issues are reproduced as follows.

##### **1. Corporate Governance**

The Milne Bay Provincial Health Authority did not have a Five Year Corporate Plan that established long-term objectives, set priorities and targets. I noted therefore, yearly programs and activities of the Authority had been conducted in an ad-hoc manner and without proper planning.

##### **2. Work of Internal Audit**

The National Health Department is responsible for internal audits of the Provincial Health Authority. I sighted no evidence however, to indicate that there had been any internal audits conducted during the year to monitor and assess the internal control mechanisms within the operations of the Health Authority.

##### **3. Appropriation and Budget Management**

The revised appropriation totalling K23,510,840 received from both the National and Provincial Governments exceeded the original budget estimate of K16,071,300 by K7,439,540. However, the relevant budget documents were not provided for confirmation of the supplementary budget allocation.

##### **4. Procurement Procedures**

###### Paid Accounts

I noted instances of claims paid without proper scrutiny and authorisation or payments made without the relevant supporting documents.

###### Advances Management

Travel advances totalling K42,176 remained outstanding as at year end, some of which date back to prior years thus indicating a lack of compliance with advance management requirements.



## **5. Human Resource Management**

Personnel files were not updated thus, rendering it difficult to establish the basis of salaries and wages variations. Further, fortnightly payroll reconciliations were not done to certify the correctness of the payrolls.

## **6. Cash Management**

The cashbook and ledger accounts pertaining to the operation of the Hospital Fees Trust Account were not adequately maintained and as such receipts totalling K35,921 were not taken up and appropriately reported.

### **5.13.4.4 Management Responses**

The audit findings on the financial statements and internal control environment had been communicated to the Hospital's Chief Executive Officer with related risk implications and recommendations for improvements. Management of the Authority had taken note of my audit queries stating further that there had been some improvements made since.

### **5.13.4.5 Status of Financial Statements**

The Milne Bay Provincial Health Authority did not submit its financial statements for 2013 for my inspection and audit. However, the interim audit on the control environment had been completed in the absence of the financial statements and the results were being evaluated at the time of preparation of this Report in July 2014.

## **5.13.5 Provincial Government Business Arms**

Relevant Section of the *Audit Act* provides for and extends my functions to audit the accounts and records of the Provincial Government Business Arms and other establishments.

I am aware of two business arms of the Milne Bay Provincial Government namely, Milne Bay Properties Ltd and Miba Microfinance Ltd. At the time of preparing this Report in July 2014, the business arms had not submitted any financial statements to-date for my inspection and audit. Consequently, I was unable to comment on the operations and financial results of the entities.

## 5.14 MOROBE PROVINCE

### 5.14.1 Introduction

Morobe Provincial Government, Lae Urban Local-level Government and Angau (Lae) General Hospital Accounts are audited every year, with or without financial statements. Other LLGs and the Business Arms of the Provincial and Local-level Governments could not be audited due to manpower and financial constraints faced by my office and lack of records and support from the respective Governments.

### 5.14.2 Morobe Provincial Government

The audit of 2011, 2012 and 2013 financial statements, accounts and records had been completed and the audit opinion reports were issued to the Ministers concerned. The three years audit reports were disclaimed and as the internal control issues were common throughout, therefore only 2013 audit findings are reported below.

#### 5.14.2.1 Financial Statements 2013

The financial statements for Morobe Provincial Government were submitted. The field audit was completed and the Management Letter was issued in May 2014. My report to the Ministers and other relevant bodies under the *Organic Law* was issued in June 2014. The report was a Disclaimer of Opinion as summarised below.

#### “Basis for Disclaimer Opinion

##### Presentation of Financial Statements

The financial statements were not certified as an authentic document by the responsible officers at the time of this Report.

##### Cash Balances

I was unable to express an opinion on the accuracy of the accumulated fund balance of K103,528,757 as at 31 December 2013 due to:

Provincial Treasury wrote-off K1,451,245 from the cashbooks without approval from higher authorities:

- Prior year adjusted figure of (K1,451,245) was made to arrive at the opening revenue fund balance of K13,314,825 in 2013, lacked supporting documentations; and
- The balances of the two trust with bank accounts, namely Morobe Provincial Sports Council and Morobe Provincial Disaster and Emergency Trust, were omitted in the financial statements;

##### Receipts and Payments

The financial statement ‘B’ presented total revenue of K213,795,546 and expenditure of K217,098,547 with an excess revenue of K3,303,001. I could not confirm the excess revenue stated due to inaccurate disclosure of the public servants and teachers’ salaries and lack of supporting documentation.

### **Assets**

Appendix 4 of the financial statements did not disclose a summary of assets while Note 15 of the Notes to and forming part of the financial statements showed a total of K6,440,147 as the value of assets. This could not be confirmed due to the lack of an updated central asset register. Assets purchased in 2013 totalling K2,976,935 could not be traced to an asset register. I was unable to confirm the existence, custody, condition and value of assets owned by the Morobe Provincial Government as at 31 December 2013.

### **Advances**

Discrepancies in the balances of the un-acquitted advances were noted between Appendix 6 as K3,403,109 against Note 17 of the Notes to the accounts as K4,794,642. Appendix 6 was noted to be the 2012 figure incorrectly disclosed. I could not ascertain the correct figure due to the lack of audit trail, an incomplete Advance Register and lack of supporting records.

### **Investments**

It is common knowledge that the Provincial Government has a business arm, namely Kungie Holdings Limited and its subsidiaries. The Provincial Government did not report any investments in statement 'F' of the financial statements. Also, no Investment Register was provided for audit.

### **Debtors**

Note 13 to the accounts had a debtors balance of K97,160 which was misleading as there was no Debtors Ledgers maintained to show this debt. There were debts due as reported in my Management Letter issued to the Provincial Administrator in May 2014. The debts included sale of land, buildings, lease rental income and the provincial government vehicles. I was unable to ascertain the total debts due to a lack of records.

### **Disclaimer of Audit Opinion**

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of the Morobe Provincial Government for the year ended 31 December 2013”.

#### **5.14.2.2 Financial Statements – 2011 and 2012**

The financial statements for the years ended 2011 and 2012 had been submitted. Field audits were completed and the Management Letter for 2011 was issued in March 2014 and the Management Letter for 2012 was issued in April 2014.

My reports to the Ministers and other relevant bodies under Section 113 (8) of the *Organic Law* were issued in June 2014. Both 2011 and 2012 reports contained similar basis for Disclaimer of Opinions as in 2013. Therefore only the 2013 report is reproduced above.

#### **5.14.2.3 Control Environment**

Significant internal control weaknesses were identified in 2011, 2012 and 2013 which are common in nature, therefore only 2013 weaknesses are reported.

## **Corporate Governance**

A corporate plan for 2008–2012 was approved in November 2008 and addressed six important Key Result Areas (KRA's) being: management co-ordination and direction; mobilise support of key stake holders; budget and financial management; human resources management; physical assets management; and technical systems management.

In view of the Disclaimer of Opinions issued on the financial statements and other internal control issues raised in the Management Letter, it is evident that the KRA's had not been successfully managed. One such very important area not managed well is the physical assets management.

## **Work of Internal Audit**

The Internal Audit Office (IAO) lacked appropriate human and necessary logistical resources to function effectively. The Province had large annual budgets of more than K360 million, a large geographical area, nine districts, thirty-two Local-level Governments and a number of educational and health institutions. The IAO needs proportionate support to carry out its functions.

The apparent lack of internal audit work into the routine areas of the Provincial Government operations had largely contributed to the major breakdown in internal controls and procedures required to be observed by management. However despite these constraints the IAO has performed well according to its 2012 to 2013 annual work plans.

## **Appropriation and Budget Management**

It was not possible for me to ascertain the correct total expenditure figure to compare against the total appropriation of K361,319,500. The information on the public servants and the teacher's salary had not been provided. The total salary figure was misstated in the financial statements.

It was also noted that items had their own votes to charge expenditure from were deliberately incurred out of incorrect votes especially from vote item 135 (Other Operational Expenses) for purchase of assets, travel warrants, vehicle hire, vehicle maintenance, utilities, accommodation warrants, office stationeries, cash advances, overtime and financial assistance.

## **Revenue and Receivables**

Examination of revenue records revealed that:

- Property rental receipts had been deposited directly into the Provincial Government bank account by clients as noted from the bank statements. However, in the absence of registers and lease agreements I could not determine whether correct amounts had been deposited and the receipts correctly accounted for in the books of the Provincial Government;
- Motor traffic registry files had not been properly maintained. There was limitation of scope of audit where detailed information about the vehicle registration, driver licensing and the related fees collected could not be ascertained;
- There had been no proper management, control and monitoring of liquor licensing and the collection of revenues due to the Provincial Government;
- Out of the total under-banking of K184,006, K115,788 relate to the period from 2009 to 2012. These under-banking still remained unresolved as at 31 December 2013; and

- Collections for the Lae Motor Traffic Office had not been banked promptly. Delays ranged from two to sixteen days.

### **Procurement Procedures**

Examination of selected payment vouchers revealed the following anomalies:

- Three quotations had not been obtained in most instances prior to the purchase of goods and services;
- Advance payments made to a travel agent were not for airfares only but also for accommodation, vehicle hire and travel allowance which is not in line with the requirements of the Public Finances Management Manual;
- Excessive funds which could have been used to purchase vehicles were instead spent on hiring vehicles. As reported in my 2013 Management Letter, selected instances of significant vehicle hire costs for the Governor's Office totaled K390,805 while for the Administration was K534,886. No control over the hire and use of private vehicles and also Provincial Government owned vehicles had been used 24 hours, 7 days basis thereby incurring considerable transport costs;
- Funds totalling K9,795,168 paid to District Treasuries for maintenance of schools, roads, bridges, airstrips and wharves had not been monitored by the Provincial Works Unit to ensure that the funds paid were spent on the intended projects; and
- Individual project files in relation to total expenditure of K4,902,761 for the construction and maintenance of roads, foot bridges, buildings, installation of gas and water, and fencing of schools were not available, although requested. Also, the status of these projects could not be established.

### **Cash Management**

Examination of cash books, bank accounts and bank reconciliations statements with the related records revealed that:

- Bank reconciliation statements for the grant and the internal revenue accounts revealed significant reconciling items that had not been cleared before preparing the financial statements;
- Significant amounts of money had been lost through under banking in the internal revenue account. These losses had been incurred by officers who were doing the banking of the daily collections between 2009 and 2013. No remedial actions were taken to recover the loss;
- Stale cheques had not been promptly identified and written back to the cashbooks; and
- An unpresented cheque number 439461 for K40,000 was presented twice on 13 January 2014 and 17 January 2014 resulting in double payment.

### **Assets Management**

A review of the procurement of assets, the maintenance of asset registers and control practices revealed the following weaknesses:

- The Public Financial Management Manual requires assets registers to be maintained under the following classifications: land and building; furniture and fitting; office equipment; motor vehicles; marine vessels; plant and machinery; and

tools and equipment. This requirement had not been fully complied with by the Government in a centralised and coordinated manner;

- A review of the systems and controls in place relating to management of assets had revealed that a proper policy and guidelines on the management and control of state assets was not in place. Although a database program was maintained by the Provincial Finance Office, it had not been continually updated with purchases or disposal of assets; and
- Physical verification on the list of assets provided by the Liquor Licensing and the Human Resources Divisions had revealed that important details such as the date of purchase, model number or serial number and the economic life of the items were not recorded.

### **Motor Vehicles**

The expenditure reports had revealed that more than fourteen vehicles totalling K2,624,640 were purchased during the year. A vehicle listing provided by the transport officer included only ten vehicles totalling K1,176,544. These indicated that the vehicle listing was incomplete. Details of some of these vehicles did not match with the details as per the expenditure ledgers.

The vehicle registration documents for all motor vehicles under the custody of the Provincial Administration had not been provided. Hence, I could not ascertain the number and the type of vehicles owned the Provincial Government.

### **Properties**

The titles for the properties had not been provided, although requested. Proper records of properties disposed had not been maintained. A list of properties sold between 2011 and 2013 provided indicated that sold properties were not paid in full with outstanding balances still remaining; and some tenancy agreements were not in place resulting in non-deduction of rentals.

### **Trust Account Management**

Trust accounts operated through the Provincial Government Accounting System (PGAS) had been disclosed in the financial statement while those operated outside were not. Two such trust accounts operated outside the PGAS are the Morobe Provincial Sports Council and the Morobe Provincial Disaster and Emergency. In 2013, a total of K597,912 was paid to the Morobe Provincial Sports Council for games in 2013 and 2014. All trust accounts formed part of the Provincial Government must be fully accounted for in the books of the Government.

### **Human Resource Management**

Examination of the payrolls for both the national and provincial and the personal files revealed the following shortcomings:

- The Staff Establishment Register had not been provided, as such the staff ceiling, the number of positions occupied, vacant and unattached officers could not be confirmed;
- No evidence was provided to show that the payroll reports for both national and provincial governments had been checked by human resource officers to ensure that there were no ghost employees and all salaries and allowances were paid according to the approved rates. At the time of audit in April 2014, all payroll

reports for the second half of the year 2013 were not received as confirmed by the senior payroll officer;

- A review of the personal files for selected employees indicated that the approved salary and wages tax declaration form which is the basis for deduction of fortnightly taxes, were not filed for some officers. Others filed were outdated. As a result fortnightly taxes were not deducted correctly; and
- Salary history cards from the provincial payroll selected had not been maintained in their personal files. Hence, their pay rates shown on the payroll could not be verified for their accuracy.

#### 5.14.2.4 Management Response

The audit findings on the financial statements and internal control weaknesses for the years 2011, 2012, and 2013 had been identified and communicated to the Morobe Provincial Government Administrator. I have highlighted the impacts of these observations and made recommendations for improvements. However, I have not received responses to the Management Letters at the time of preparing this Report.

#### 5.14.2.5 Status of Financial Statements

The financial statements for the years 2011, 2012 and 2013 were submitted. The audit report of each year was done and submitted to the ministers and bodies required by the *Organic Law*.

### 5.14.3 Lae Urban Local-level Government

#### 5.14.3.1 Introduction

The Lae Urban Local-level Government (Lae ULLG) did not submit the 2012 and 2013 financial statements. The report for 2011 financial statements, accounts and records had been completed and the audit opinion report was issued to the ministers concern. The audit findings are reported below.

#### 5.14.3.2 Financial Statements– 2011

The financial statements for Lae ULLG for the year ended 31 December 2011 had been provided and the audit was completed. The Management Letter issued had not been responded when this Report was prepared in June 2014. My report to the Ministers and other relevant bodies under *Section 113 (8)* of the *Organic Law* on the financial statements was issued in June 2014. The report contained Disclaimed Audit Opinion as reproduced below:

#### “Basis for Disclaimer Opinion

##### Presentation of Financial Statements

The financial statements for Lae ULLG had not been presented in the required format, namely; statements ‘A’ to ‘K’ and Appendices 1 to 6. They did not contain the District Administrator, Lord Mayor and City Manager’s statements to state the true and fair representation of the financial position as at the financial year ending 31 December 2011. This constitutes a scope limitation and affects every statement of the financial statements.

##### Cash Balances

I am unable to express an opinion on the accuracy of the cash at bank balance and consequently, on the financial position of Lae ULLG as at 31 December 2011 due to

limitation of scope arising from the disclaimed audit opinion on the 2010 accounts; cash at bank balances were not disclosed in the financial statement and the cashbooks for all bank accounts were not provided for my examination and there are issues detailed under receipts and payments paragraph below that materially affected the accuracy of the cash at bank balance.

### **Receipts and Payments**

I am unable to verify the accuracy of the receipts and payments due to:

- Total income figure of K10,409,095 could not be ascertained for its accuracy as all revenue ledgers were not provided and revenue account codes were not labelled on the official receipts issued making it difficult for me to ensure that receipts were posted to the revenue ledgers;
- Collections were done by officers who were not authorised as Collectors of Public Monies and there were delays in banking of cash collected, unbanked collections from market during weekends held overnight and the used without approval;
- Debtor Ledgers were not maintained and no proper follow up actions taken on debtors leaving a huge outstanding debtors balance of K15,949,274 including staff debtors of K23,560 at year end;
- Records of loans given to third parties were not maintained although there was substantial balance outstanding and incompatible functions such as signing cheques, entering of data into the computer, and bank reconciliation statements were done by one person causing delays in posting of transactions; and
- Proper procurement procedures were not followed in the payment for goods and services.

### **Debtors**

The financial statements did not show a summary of debts outstanding as at 31 December 2011 in Appendix 2. I was not provided with a complete statement of debtors when requested except for land and head taxes which showed a total balance of K15,925,714 outstanding at year-end. Outstanding debts relating to garbage collection and other rates could not be ascertained in the absence of the complete debtor's ledgers and listings.

### **Assets**

An Assets Register was not maintained to record details of assets owned and no stocktake of assets were conducted. Board of Survey records on disposal of fixed assets including vehicles were not provided. Most of the residential and commercial properties owned were on a 99 year lease but the actual lease and title documents were not provided. As a result, I am not able to ascertain the existence, custody, condition and value of the total assets of the ULLG as at 31 December 2011.

### **Disclaimer of Audit Opinion**

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the Financial Statements of Lae ULLG for the year ended 31 December, 2011”.

#### **5.14.3.3 Control Environment**

##### **Corporate Governance**

No corporate plan was provided that establishes long term objectives, set priorities and targets and take into account the requirements of its stakeholders. The Government had



been plagued by several critical management problems such as carrying excess manpower for which it is unable to fund and significant under collection of internal revenues.

Revenues from the National and Provincial Governments were not fully received and lacked of proper management resulted in no quality services provided to the city residents.

### **Work of Internal Audit**

No Internal Audit Office was set up by the Lae ULLG. There were no internal audits done by the Internal Audit Unit of the Provincial Government into the routine operations of the ULLG.

### **Appropriation and Budget Management**

The approved budget estimate of revenue and expenditures for 2011 had not been provided and also the incorrect presentation of the financial statements which did not show estimated revenue and expenditure. I am not able to compare estimates against actuals and ascertain the accuracy of total receipts and payments for the year ended 31 December 2011.

### **Revenue and Receivables**

The audit findings are as follows:

- The state of records kept by the Urban LLG had been below the acceptable standards. The total income was stated as K10,409,095 in the financial statement but this could not be confirmed due to mismanagement of financial records;
- The financial statement did not present the revenue figures according to the revenue heads making it difficult to trace to the trial balance and the respective revenue ledgers;
- Revenue ledgers were not provided; therefore there was a limitation in the scope of audit of revenue items;
- Daily market takings were directly used for buying items by the market officers without properly accounting for them. There appeared to be no policies governing the use of daily market takings; and
- The complete statement of debtors as at 31 December 2011 was not provided when requested except for head and land taxes which showed a total of K15,925,714 remaining to be collected.

### **Procurement Procedures**

- The following lapses had been noted on procurement procedures and payment of accounts:
- The appointments of the Section 32 Officer, requisitioning officers, financial delegates, examiner, certifying officer and their specimen signatures were not sighted. As a result, I was not able to verify that all claims were properly raised and certified prior to payments;
- The authorised signatories to the bank accounts and their specimen signatures had not been made available. Hence, I cannot verify whether those officers signing cheques of the Urban LLG were duly authorised;
- Quotations were not obtained from three suppliers for the purchase of goods and services;

- Payments were made for garbage removal and provision of security services. However, proper contract documents showing the terms and conditions for the engagement of these service providers were not provided for my examination; and
- No proper fuel records were maintained to reconcile with fuel accounts kept by the PNG Nambawan Trophy Ltd which refills the Urban LLG vehicle fleets.

### **Cash Management**

Examination of cash books, bank accounts and bank reconciliations statements with the related records revealed the following findings:

- The financial statements were not presented in the prescribed format and as such did not show the reconciled cash book balances of all bank accounts. The cash books for all bank accounts were also not provided for my review; and
- No Advances Register was maintained over the years to record the payments made as advances to officers.

### **Trust Accounts**

Three trusts accounts with bank accounts, namely the Lae City Road Maintenance Project, Car Park and the LaeSieng Trust Accounts were maintained. However, only the LaeSieng trust account is currently in operation while the other two were dormant. However, records including trust instruments, statement of receipts and payments and cash books were not provided for my examination.

### **Human Resource Management**

The audit findings are as follows:

- The manner in which salary records maintained could not allow me to determine the total personal emoluments expenditure for the year. The year-to-date payroll and the related supporting documents were not in a complete form for my audit examination;
- Personal files indicated that salaries and wages tax declaration forms were not filed by most of the officers. There were other staff who filed such tax declarations but in both cases, taxes were not calculated properly and remitted to the Internal Revenue Commission; and
- There was no documentary evidence to show that payroll related accruals are checked and authorised and that analytical reviews for annual leave entitlements, long service leave entitlements, superannuation contributions, gross pay, payroll tax and employee deductions are regularly being checked.

#### **5.14.3.4 Management Response**

The audit findings on the financial statements and internal control weaknesses for the year 2011 had been identified and communicated to the Lae District Administrator and Lae Urban LLG Manager. I have highlighted the impacts of these observations and made recommendations for improvements. However, I have not received responses to the Management Letter as at the time of preparing this Report.

### **5.14.3.5 Status of Financial Statements**

The financial statements for 2012 and 2013 have not been received at the time of writing this Report in June 2014.

## **5.14.4 Angau (Lae) General Hospital**

### **5.14.4.1 Introduction**

An interim audit of Angau General Hospital had been conducted without the financial statements for the period ended 31 December 2011. At the time of finalising this Report, my Management Letter issued in December 2013 had not been responded to. The paragraphs below detailed the issues identified with the accounts and records of the Hospital.

### **5.14.4.2 Control Environment**

There were internal control weaknesses identified in the accounts, records and processes as follows:

#### **Corporate Governance**

Although a Corporate Plan was in place, there were no written manual of procedures and policies in place to guide the core activities such as payment of accounts, preparation and payment of casual wages, assets and inventory management, stores and supplies and pharmaceutical services.

#### **Work of Internal Audit**

The Hospital did not have an Internal Audit unit. No internal audit reports were provided for me to see whether internal auditors of the Department of Health conducted any routine audits.

#### **Appropriation and Budget Management**

The audit findings were as follows:

- There was a limitation on the scope of audit due to budget, revenue and expenditure records not provided in a complete form;
- Funds released through Cash Fund Certificates were K15,762,800. There was no audit trail to check this expenditure against appropriation due to the improper manner of books kept;
- Commitment control procedures, particularly the appointment of financial delegates, were not in operation; and
- The trust instrument for internal revenue and expenditure, Section 3 (c) was not complied with in formulating the trust revenue and expenditure estimate forming part of the annual budget.

#### **Revenue and Receivables**

Examination of revenue balances and records revealed the following findings:

- The Hospital received the National Government grant through Cash Fund Certificates totalling K15,762,800 but there was no proper recording, accounting and disclosure. The Health Department deposited K50,000 on 16 December 2011 was not accounted for in the books of the Hospital; and

- The major weaknesses highlighted in my 2010 Management Letter on revenues inevitably apply to 2011 as there were no remedial actions taken to rectify the weaknesses reported.

### **Procurement Procedures**

Examination of procurements and paid accounts revealed the following findings:

- The Hospital had not provided records in relation to the appointments of Section 32 Officers and the financial delegates who had approved the expenditures of the Hospital funds for its operations. As such, I was not able to ascertain the validity of all financial transactions approved and incurred by the Accountable and Accounting Officers in 2011 as per Part 8 of the Financial Manual;
- A payment had been incurred in excess of the quotation received from a pharmaceutical company. A sum of K10,858 was paid to a pharmaceutical distributor for supply of umbilical cord clamps. A quotation was received for a total of K870 while in return a cheque number 326069 was drawn for an amount of K10,858 in payment of the quotation. No explanation for this transaction was received for the excess payment of K9,988; and
- Adherence to the requirement of obtaining three quotations was lacking. In the absence of a Quotations Register to justify the receiving of quotations for cost effective measures.

### **Cash Management**

The Hospital maintained four bank accounts namely, the main operating account, Hospital Fees Trust account, the Project Account and the IBD Account. The review of the accounts and records revealed the following observations:

- The Operating and Trust Accounts cashbooks for 2011 were incomplete as a result of transactions not posted on a timely basis. When queried, the officers concerned did not provide valid explanations on why the cashbook was not used to record transactions for the two years, 2010 and 2011;
- The Hospital failed in its responsibility to comply with instruction as the monthly bank reconciliation statements for both the Operating and the Hospital Fees Trust Accounts for the year ended 31 December 2011 had not been prepared as at the time of completion of audit in 2012; and
- A Petty Cash Imprest amount of K1,000 was maintained by the Hospital being K500 for general expenses and K500 for fresh foods for the Hospital kitchen. In almost all cases proper receipts and acquittals were not attached with the petty cash vouchers.

### **Advance Management**

Review of advance management revealed the following findings:

- A total of K64,000 salary advances was given to employees in 2011. Individual ledgers with important information such as the cheque numbers, amounts, date of payment, date of repayment and the running balance had not been maintained by the Hospital in a systematic manner to tell who repays;
- Total travel advances of K83,407 were paid and charged to expenditure item 121 and 135 were not properly recorded in a register. The Hospital did not maintain proper records of all advances paid; and
- Previous advances were not acquitted when the new ones were given which

amounts to K36,225. This is in breach of the Financial Management Manual.

### **Asset Management**

Review of asset management revealed the following finding:

- The hospital did not maintain a comprehensive Asset Register in accordance with the Financial Management Manual. A listing of assets totalling K2,725,825 was produced which was the same list produced for the 2010 audit. As such, I am unable to verify the completeness, existence, ownership, accuracy and valuation of fixed assets at year end.

### **Trust Account Management**

The Hospital Trust Account was managed together with the operating account. Therefore audit observations made also apply to this account as well:

- A detailed audit could not be conducted on the Hospital Trust Account due to the transactions for the year 2011 not being posted to the Attaché Accounting System; and
- The Hospital Fees Trust Account earns monthly interest which is credited to an unknown bank account number 1000587933 on a monthly basis annually. However, the hospital did not appear to have much information on the operation of this account.

### **Human Resource Management**

Review of personnel emoluments revealed the following findings:

- Payrolls were not received on a consistent basis. Either there was no attempt made to collect the payroll or the Section responsible did not bother asking. Payroll reconciliations had never been undertaken neither was payroll data cleansing conducted. Without proper management of payroll there was at risk of irregularities and even fraud without the required reconciliations;
- Employees other than those covered by the consolidated awards for medical and clinical staff claimed overtime excessively without CEO approval; and
- Accounts and records such as payment schedules and the calculation details were not provided. Vouchers for board payments totalling K50,810 were missing.

#### **5.14.4.3 Management Response**

The audit findings on the internal control weaknesses for the year 2011 had been identified and communicated to the Lae General Hospital Chief Executive Officer. I have highlighted the impacts of these observations and made recommendations for improvements. However, I have not received responses to the Management Letter as at the time of preparing this Report.

#### **5.14.4.4 Status of Financial Statements**

The financial statements for 2011, 2012 and 2013 had not been received but the interim audit for 2011 was done and the Management Letter was issued but no response was received based on which this Report was prepared.

## 5.15 NEW IRELAND PROVINCE

### 5.15.1 Introduction

The Report on New Ireland Province covers New Ireland Provincial Government, Kavieng Urban Local-level Government, Kavieng General Hospital Board and their Business Arm's financial statements and transactions for the financial years 2011, 2012 and 2013 respectively as the case may be.

### 5.15.2 New Ireland Provincial Government

The New Ireland Provincial Government had submitted its financial statements for 2011, 2012 and 2013. The field work associated with the audit of the financial statements for the three years had been completed with Management Letters issued. The audit opinion reports for were issued to the Ministers concerned and other relevant bodies.

#### 5.15.2.1 Financial Statements –2011 to 2013

My reports for the years 2011, 2012 and 2013 to the Ministers concerned and other relevant bodies under the *Audit Act* and the *Organic Law* were issued. The reports for the three years contained similar Disclaimer of Opinions hence, only the 2013 report is reproduced as follows.

#### **“Basis for Disclaimer Opinion**

##### Presentation of Financial Statements

- The financial statements for New Ireland Provincial Government did not fully comply with the format prescribed by Finance Instructions in that the Governor and Administrator's Statements on the Provincial Government Budget Performance and Financial Performance were not presented; and that the financial statements were not signed and certified to authenticate the report as legal document presenting a true and fair view of financial activities of the Provincial Government during the year; and
- The financial statements were misleading as a result of errors in the presentation, namely, amounts in the relevant statements as well as the closing balances reflected in the respective Notes to the financial statements were incorrectly presented in amounts of 'thousands' instead of the original amounts.

##### Cash Balances

I was unable to express an opinion on the accuracy of the of the Provincial Government Account balances and consequently, on the financial position of the Provincial Government as due to the following reasons:

- (a) The cash and bank balance of K29,216,006 included an old operating account balance of K765,007. This was not supported by evidence of any actual cash held in bank account as this account was inactive for some years and the amount of K765,007 was merely representing the closing cashbook balance at the closure of the Operating Account;
- (b) The balance of the Provincial Revenue Fund of K41,148,081 could not be confirmed as correct due to errors and material misstatements of the operating surplus as discussed under the paragraphs on Receipts and Payments; and
- (c) There were material reconciling items identified in the bank reconciliation statements for the Operating Account and Grant Account relating to receipts and expenditure that were not adjusted in the cashbooks and respective ledger accounts with consequent effects to other related statements.

### Receipts and Payments

The New Ireland Provincial Government reported its total revenue and expenditure as K86,315,140 and K76,128,988 respectively with an operating surplus of K10,186,153. I was unable to confirm the accuracy of these amounts and therefore, the correctness of the operating surplus at year end due to the following reasons:

- (a) I noted that the Public Servants' and Teachers' Salaries actual receipts and expenditures had been disclosed in the financial statements however, were not taken up in the respective revenue and expenditure ledgers as these were provided for in the Annual Appropriation Act; and
- (b) Material reconciling items pertaining to receipts and expenditure were not adjusted in the cashbooks and posted to the appropriate revenue and expenditure ledgers.

### Investments

The New Ireland Provincial Government had not disclosed any information or balances relating to long-term investments. However, as stated in my previous year's audit report, the Provincial Government held two shares at the cost of K2 in its business arm namely, New Ireland Development Corporation as well as 3,000 shares at the cost of K3,002 in Lottery Management Services, a defunct entity. In the absence of adequate confirmation including the investment register and related share certificates, I was unable to confirm the accuracy, existence, ownership and value of investments owned by the Provincial Government as at 31 December 2013.

### Assets

The relevant Appendix to the financial statements did not disclose any information in relation to values of assets owned by the Provincial Government at year end. However, Note 15 to the accounts showed an asset value as K9,805,600 which was the same balance reported to have been brought forward since 2004. As stated in my previous year's audit report, no proper assets register was maintained to capture complete and accurate information on all fixed assets purchased, owned and in the custody of the Provincial Government during the year. For instance, fixed assets worth K2,186,086 purchased during the year had not been recorded at all or periodic stocktakes done to verify the existence of the assets.

### Trust Accounts

The New Ireland Provincial Government administered independently several trust accounts that were operated through separate bank accounts. I was not provided evidence of Trust Instruments and other related documents to ascertain legality and validity of the transactions operated through these trust accounts.

### **Disclaimer of Opinion**

Because of the significance of the matters referred to in the Basis of Disclaimer Opinion, I have not been able to obtain sufficient appropriate evidence and accordingly, I was unable to express an opinion on the Provincial Government's financial statements for the year ended 31 December 2013."

### 5.15.2.2 Control Environment

In accordance with the *Audit Act* and the *Organic Law* have a duty to report on other significant control issues arising out of the financial statements to which the reports relate. I have noted similar issues in 2011, 2012 and 2013 audits hence, only the 2013 issues are reproduced as follows.

#### 1. Corporate Governance

The New Ireland Provincial Government's five year Corporate Plan 2008 to 2012 had lapsed at the end of 2012. The Corporate Plan focused on number of major Key Result Areas (KRA) with set targets and objectives. I was not provided evidence to suggest that there had been reviews done to assess and evaluate the implementation and achievements of goals and objectives of the Corporate Plan. I noted lack of proper physical assets management as one such example of the Provincial Government not achieving its KRAs.

#### 2. Work of Internal Audit

The Internal Audit Unit was in a dire need of a competent officer(s) following the retrenchment of the Chief Internal Auditor a year ago. Further, the Unit had been lacking adequate funding and necessary logistical support for the effective and efficient performance of its functions and responsibilities.

#### 3. Appropriation and Budget Management

A certified and duly approved *Annual Appropriation Act 2013* authorised the New Ireland Provincial Government's revenue and expenditure budget estimate of K159,128,200 for the 2013 financial year. I noted no material adjustments to the annual appropriations by way of increases or reductions through the quarterly budget review processes and that the approved annual appropriation for Internal Revenues and Grants had remained at K48,202,100 and K110,926,100 respectively at year end.

#### 4. Revenue and Receivables

My review of revenue records revealed the Provincial Government had collected revenues totalling K468,853 from the sale of its owned houses. I was not provided evidence for my satisfaction and to indicate that proper board of survey and independent valuations were undertaken to determine the disposal value of the houses and whether or not the disposal of the properties were approved by the Provincial Supply and Tenders Board.

#### 5. Procurement Procedures

##### Paid Accounts

- Section 32 Officers failed to disclose their designations and financial limits on the Requisitions For Expenditure (FF3) when approving requisitions to incur expenditures;
- There were numerous instances of payment vouchers not certified to determine the completeness and accuracy of the expenditures incurred prior to processing payment of the claims;
- Fifteen instances were noted where the Chief Executive Officer (Social Sector) had approved individual claims for payment of pension funds to old aged and disabled persons for 2012 and 2013 totalling K4,716,072 in excess of his delegated financial limit of K100,000;



- I observed payments totalling K82,402 for Digicel flex cards and B-Mobile prepaid cards. I considered the expenditures to be excessive and extravagant as the prepaid cards were open to abuse and misuse by dishonest officers; and
- The Provincial Government had engaged the services of two individuals as consultants working with the Autonomy Secretariat and Committee on drafting legislation for autonomy status. The Provincial Executive Council approved K30,000 as payment of monthly consultancy fees to each of the consultants. However, I observed the payment of consultancy fees were taxed at the rate of ten percent rather than on the appropriate rate applied on taxable income.

#### Capital Works and Maintenance

- The Provincial Government had paid K580,000 and K415,700 on purchases of motor vehicles on two occasions. I noted these capital expenditures as inappropriately approved by the Provincial Supply and Tenders Board by way of Certificates of Inexpediency. Further, the Certificate of Inexpediency authorising the expenditure of K415,700 was signed by the Provincial Administrator and Provincial Treasurer only without other members of the Board; and
- Payments totalling K1,538,460 were made to Public Works New Ireland Limited to facilitate the purchase of building materials for the Governor's Residence at Kavieng and Government House at Namatanai. I observed that these payments were in addition to the earlier payment of K800,000 to the same entity in the previous year. Furthermore, I was not provided evidence for my satisfaction to indicate the expenditures of K1,538,460 were approved by Provincial Supply and Tenders Board and also whether or not the building materials had been acquired and that work on the projects had commenced;

#### Grants and Subsidies

The Provincial Government had paid total of K14,774,098 during the year as grants, subsidies and financial assistance to Local-level Governments, education and health institutions, churches and village communities, public authorities and non-profit organisations and individuals. I observed accountability reports from recipients were poorly monitored nor were there records to indicate that the Provincial Government had sought these reports, except for Local-level Governments within the Kavieng District who had disclosed the receipt and expenditure of grants received in their annual financial statements.

#### Advances Management

I observed a serious lack of proper monitoring and recovery actions on travelling allowances and cash advances resulting in amounts totalling K3,098,442 dating back to 2005 unacquitted at year end. The total unacquitted advances included cash advances totalling K2,283,853 with payments to officers ranging from K1,000 to K200,000.

### **6. Cash Management**

- There was no segregation of duties between receipting, banking and recording of cash receipts. Neither were there independent and surprise cash counts conducted by a competent authority to ensure that all revenues collected was brought to account, recorded and banked intact on a daily basis; and
- Revenue collections were unduly delayed in banking for up to a maximum of forty-three days. Further, there was no permanent safe installed at the Traffic Registry for safe custody of revenue collections and all revenues collected had been kept in an unlocked desk drawer. I noted for instance, revenue collections totalling K28,931 kept in a private residence for safety and brought back to Office the next day.

## **7. Human Resource Management**

I observed the ordinary members of the Provincial Assembly, Provincial Executive Council Members as well as appointed representatives were paid fortnightly salaries not consistent with the approved salary scales as set out in the Salaries Remuneration Committee (SRC) Determinations.

## **8. Records and Mandatory Registers**

Several documentations corroborating the financial statements, such as the registers of investment, fixed assets, inventory, debtors and receivables and losses and deficiencies have not been maintained nor made available for audit review.

### **5.15.3 Kavieng Urban Local-level Government**

#### **5.15.3.1 Introduction**

The relevant sections of the *Organic Law* require the Local-level Government to submit its financial statements and its accounts and records to be audited by the AGO.

#### **5.15.3.2 Status of Financial Statements–2011 to 2013**

At the time of preparing this Report, the Kavieng Urban Local-level Government (ULLG) had submitted its financial statements for 2011 while 2012 and 2013 financial statements were awaited. Both the final and interim audits of the accounts and records were however, scheduled to commence soon.

### **5.15.4 Kavieng General Hospital**

#### **5.15.4.1 Introduction**

Kavieng General Hospital was established under the *Public Hospitals Act*. The relevant sections of the Act as well as the *PFMA* require the Hospital Board to submit its financial statements together with its accounts and records to be audited by the Auditor-General and be reported to the Ministers concerned.

#### **5.15.4.2 Status of Financial Statements 2011 to 2013**

At the time of preparing this Report, the Hospital had not submitted its financial statements for 2011, 2012 and 2013 for my inspection and audit. In the absence of the financial statements, the interim audits of the control environment for the three years were however, scheduled to commence soon.

#### **5.15.4.3 Provincial Government Business Arms**

Relevant Section of the *Audit Act* provides for and extends my functions to audit the accounts and records of the Provincial Government Business Arms and other establishments.

The New Ireland Provincial Government has a couple of business arms including New Ireland Development Corporation Ltd and other subsidiary companies. At the time of preparing this Report in July 2014, the business arms have not submitted any financial statements to date for my inspection and audit. Consequently, I was unable to comment on the operations and financial results of the entities.

## **5.16 ORO PROVINCE**

### **5.16.1 Introduction**

This Audit Report covers the Oro Provincial Government, Popondetta Urban Local-level Government and Popondetta General Hospital's financial statements and transactions of financial years 2011, 2012 and 2013.

### **5.16.2 Oro Provincial Government**

#### **5.16.2.1 Financial Statement – 2011 to 2013**

I was not able to obtain reasonable assurance as to the accuracy and reliability of Oro Provincial Government 2011, 2012 and 2013 Annual Financial Statement disclosures, hence, Disclaimer Audit Opinions were issued respectively. I have noted significant errors, omissions, misstatements and an unreliable internal control environment that materially affected the reported balances, and consequently the fund balance. Further, the financial statements presented were not signed and certified thereby presenting a scope limitation which affected the entire financial statements and their reported balances. My Audit Report to the Minister responsible also contained similar issues relating to the internal control environment as summarised in the paragraphs below.

#### **5.16.2.2 Control Environment**

##### **1. Corporate Governance**

Essentially, quality and effective delivery of basic goods and services entirely depends on prudent corporate governance. Procedurally, adoption and implementation of a corporate plan with clearly identified goals and objectives in order to direct, control and monitor Provincial Government's scarce resources more meaningfully in order to achieve set goals of the corporate plan.

Oro Provincial Government had in place a corporate plan with clearly identified corporate goals, objectives and strategies to enhance service delivery. However, key documentation evidencing adequate implementation of the corporate plan was lacking. No associated action plans were adopted, a corporate plan implementation and monitoring committee was not established, annual budgets were not formulated in line with corporate goals and their action plans and there was no other form of data available to success whether the corporate plan was actually implemented at all. I was not able to obtain reasonable assurance that the corporate plan adopted was implemented during the 2013 financial year. Further, for effective implementation and achievement of corporate plan goals sound and reliable internal controls become necessary. I was not able to test the integrity and reliability of Oro Provincial Government internal controls and risk management procedures that corporate governance relied on for making key decisions.

Those charged with corporate governance responsibilities should ensure effective implementation of the corporate plan in order to drive Oro Provincial Government resources through annual budgets, enhanced with reliable internal controls to achieve set goals of the corporate plan.

##### **2. Work of Internal Audit**

Internal Audit Function is a key administrative function that oversees the effectiveness of other functions and their internal controls and to ensure integrity and reliability of the internal control systems are maintained at all times. Continuous appraisal and review of

internal controls by Internal Audit Functions proportionally improve service delivery and quality corporate governance decisions.

The Internal Audit Unit of Oro Provincial Administration had not been producing Audit Reports ever since its inception including the 2013 financial year. This is a major control weakness which indicated that internal controls of Oro Provincial Government for the financial years 2011, 2012 and 2013 have not been appraised or reviewed for existence of control weaknesses. Further, a Provincial Audit Committee was not established in accordance with legislation to enhance the functions of Internal Audit Unit. I was not able to obtain reasonable assurance on the reliability and integrity of Oro Provincial Government's internal control environment. The Chief Internal Auditor should ensure that they fulfill their duties in maintaining and upholding the integrity of the internal control systems of the Oro Provincial Administration.

### **3. Appropriation and Budget Management**

The annual budget of Oro Provincial Government should form part of the corporate strategy formulated and implemented in line with corporate plan goals and objectives. The fact that prudently managed annual budgets driven by corporate plan goals would bear better results. Further, annual budgets legitimately authorise collection and spending of public funds hence, legislative approvals are necessary to ensure actual implementation is restricted to approved limits and purposes.

I was unable to ascertain the extent to which the Oro Provincial Government annual budget of K97,407,800 was implemented and achieved in view of the following control weaknesses:

- Documentation to show effective management of annual budget such as a certified copy Appropriation Act, Warrant Authorities, Cash Fund Certificates, Ministerial Approval Instruments, etc. were lacking;
- I was not able to ascertain whether actual application of expenditures fell within budget limits and for intended purposes; and
- Documentation maintained to show quarterly budget reviews was lacking. Further, there was no linking information available to suggest formulation of the annual budget was in line with corporate planned activities.

The budget officers should ensure that annual budgets are formulated and implemented in line with corporate plans to achieve the corporate goals. Consequently review of successive years' budgets should be based on the outcomes of the current year so that scarce resources of Oro Provincial Government can be well controlled and directed to achieve the corporate goals.

### **4. Revenue and Receivables**

Effective revenue management ensures adequate documentation of sources and procedures relevant to assist planning and collection of potential revenue. I was not able to obtain reasonable assurance on the effectiveness of the internal controls relating to revenue management in view of the following control weaknesses:

- Revenue management policy guidelines and procedures were not made available for my review;
- Collection and banking procedures were not effective resulting in delayed banking of daily collections. Further, daily collections were borrowed by Provincial Treasury staff for personal use without having proper controls in place to monitor such borrowings; and

- Incompatible tasks involved in the collection and banking procedures were not segregated, instead concentrated on one officer. Further, the collector statements and related deposits were not cross checked by a senior officer before going to the bank to deposit the cash.

## 5. Procurement Procedures

Prudent expenditure management is essentially necessary in order to enhance effective service delivery. I was not able to obtain absolute assurance on the integrity of the internal controls relating to expenditure management in view of the following control weaknesses:

- Effective procurement management ensures quality service delivery with limited resources. I was not able to ascertain the effectiveness of the Oro Provincial Government procurement management system due to non-existence of key documents such as PSTB minutes, contract files containing signed contracts, tender boxes, Tenders or and Quotation registers, Register of declarations by PSTB board members, Project management files, etc.;
- Adequate maintenance of a quotation register provides assurance that goods and services acquired were of the best quality and cheapest prices comparatively. Oro Provincial Government did not maintain a quotation register to show why quotations were not called for payments totalling K122,767. I was not able to ascertain whether goods and services acquired were of best quality at cheapest prices available in the local market;
- Supporting vouchers of payments totalling K1,822,888 made to contractors relating to capital works projects and other goods and services payments totalling K39,625 were not available for my inspection to ensure the payments made were genuine and appropriate;
- Adequately maintained advance registers and acquittal vouchers provide reasonable assurance that the advance management system is effective. No cash and travel Advance Registers were maintained to record advances paid in 2011 and 2013 totalling K3,250,884 and acquittal vouchers were completely lacking, affecting the legitimacy of these expenditures. Officers responsible for administering advances must adopt better advance management policies to address these major control weaknesses; and
- Existence of an effective grants and subsidies management system provides reasonable assurance that lump-sum funds released to implementing agencies to implement state funded projects are appropriately spent on the intended purposes. Oro Provincial Government did have in place a monitoring and controlling mechanism to effectively monitor and obtain accountability reports on the usage of grants totalling K9,647,253 released to various implementing agencies during the year. I was not able to ascertain that these expenditures were legitimate. Provincial Treasury staff should ensure controlling and monitoring mechanisms are devised to effectively manage grants and subsidies.

## 6. Cash Management

Prudent cash management practices are essential to reflect the Provincial Government's cash position or alternatively the fund balance at any point in time and to enable management makes cash management decisions.

I was not able to establish the Oro Provincial Government cash position as at 31 December 2012 due to distorted cashbook balances. The cashbook balances were affected by the accumulated accounting errors which had not been identified and adjusted in their respective accounting periods. Further, a correct bank reconciliation

procedure was not applied to reconcile the year end bank and cashbook balances. The Provincial Treasury officers should ensure that such errors do not repeat again and seek authorisation from competent authorities to clear the current outstanding errors.

## **7. Asset Management**

Prudent asset management would contribute to more effective service delivery. Proper asset control and monitoring would prevent fraudulent use of assets for personal gains, theft, loss and abuse. Further, reliable data would be available to management for relevant decisions regarding asset disposal and acquisition.

I was not able to obtain reasonable assurance that Oro Provincial Government assets were effectively managed during financial years 2011, 2012 and 2013. Key controls and procedures necessary for prudent management of assets were not documented and maintained included: Asset management policy guidelines, Asset Registers, Periodical stocktakes, and log books. Consequently, assets totalling K5,111,530 purchased between 2011 and 2013 were not recorded and accounted for.

## **8. Trust Account Maintenance and Management**

Trust Accounts are established and operated as directed by the Finance Minister or any other law. Trust Instruments provide in detail how the Trust Fund should be governed effectively to serve its intended purpose.

Oro Provincial Government operated a total of five Non-bank Trust Accounts with accumulated opening and closing balance of K2,230,505 and K2,230,505 respectively. Neither Trust Instruments nor any other document providing information on how to administer each of these Trust funds were provided for my review and to confirm whether activities carried out in these trust accounts conformed to their administrative and operational guidelines and whether they relate to and form part of Oro Provincial Government funds.

## **9. Human Resource Management**

Effective Human Resource Management is important to improve service delivery. Competent and highly motivated personnel would perform to their best and provide quality service. I was not able to obtain reasonable assurance that Oro Provincial Government's human resource management was effective in view of the following system anomalies:

- Key control procedures and documents such as Human Resource management policies, staff establishment registers showing details DPM approved positions, pay rates, vacant positions, funded positions, and unattached officers were not provided for my review and inspection;
- Significant wages bills incurred on casual employees were not substantiated with proper documentation and personal data;
- Payroll reconciliations were lacking, my physical inspections identified only five of the total twenty-six fortnightly payrolls available at the human resource office;
- Seven of the personal files selected for testing were not provided for inspection while others provided were not adequately updated with bio-data, pay variations etc.; and
- Employment contracts for seven senior officers were drafted and signed without any technical input from the Department of Personnel Management. I was not able to confirm whether senior officers were correctly paid salaries and allowances using applicable rates approved by the Department of Personnel Management.

Personnel officers responsible for human resource management should regularly review and reconcile employment contracts, personal files and actual payrolls to ensure employees are correctly paid what is legally due to them.

## **10. Internal Control Weaknesses**

Those charged with corporate governance have not acted responsibly to ensure development and implementation of an internal control management procedure.

Oro Provincial Government did have in place a corporate plan and an Internal Audit Function, however, there was no evidence to show that the corporate plan was implemented and that was further confirmed by non-production of audit reports by the Internal Audit Function. Poor corporate governance leads to inadequate management and control of annual budgets, cash, assets, procurements, human resources and investments.

Further, important accounting treatments have been ignored over years resulting in accumulated errors that have distorted cashbook balances and Oro Provincial Government's cash position. I was not able to obtain reasonable assurance that Oro Provincial Government's internal controls were effective, consequently, I could not rely on the financial statement balances that originate from unreliable sources. Additionally, the Oro Provincial Governor and Provincial Administrator's failure to inform stakeholders on budget and financial performance during the fiscal year 2013 in the Annual Financial Statements is a clear demonstration of poor corporate governance.

### **5.16.2.3 Status of Financial Statements**

The Annual Financial Statements for 2011, 2012 and 2013 financial years received and audited were unsatisfactory, hence Disclaimer Opinions were issued.

### **5.16.3 Popondetta Urban Local-level Government**

#### **Status Report**

I have not commenced audit of the accounts and records of the Popondetta Urban Local-level Government for the financial years 2011, 2012 and 2013. Management of the entity is yet to furnish Annual Financial Statements relating to these years for me to carry out the audits.

### **5.16.4 Popondetta General Hospital Board**

#### **Status Report**

I have not commenced audit of the accounts and records of the Popondetta General Hospital Board for the financial years 2011, 2012 and 2013. Management of the entity is yet to furnish Annual Financial Statements relating to these years for me to carry out the audits.

## **5.17 SANDAUN PROVINCE**

### **5.17.1 Introduction**

The report on the Sandaun Province covers the audit of the accounts and records of the Sandaun Provincial Government, the Vanimo General Hospital and Vanimo Urban Local-level Government. The reports cover the financial years ending 31 December 2011, 2012 and interim audit of 2013 accounts and records for the Provincial Government, 2011 and 2012 for the Vanimo General Hospital Board and 2011 and 2012 for the Vanimo Urban Local-level Governments respectively.

### **5.17.2 Sandaun Provincial Government**

The Sandaun Provincial Government submitted its financial statements for the financial years ending 31 December 2011 and 2012. Field work associated with audit of the 2011 and 2012 accounts and records were completed with the Management Letters issued. The audit opinion reports were issued to the Ministers concerned. An interim audit associated with audit of the accounts and records without the financial statements for the year ended 31 December 2013 was also completed with the Management Letter issued. The review of the control environment for the three years 2011 to 2013 contain similar issues, hence only the 2013 issues are reproduced as follows.

#### **5.17.2.1 Control Environment**

##### **1. Corporate Governance**

The Sandaun Provincial Government had in place a five year Corporate Plan, 2012 to 2016. My review of the accounts and records showed a lack of improvement in the Key Result Areas relating to Budget and Finance Management, Human Resource Management and Physical Asset Management.

##### **2. Work of Internal Audit**

The Internal Audit Unit had undertaken and completed five audits during the year. However, Internal Audit lacked adequate funding and the necessary logistical support to enable it to effectively perform its roles and responsibilities.

##### **3. Budget Management**

The Sandaun Provincial Government approved annual appropriation for the financial year ended 31 December 2013 was K170,722,700. However, my review of the expenditure ledger reports revealed the annual appropriation presented as initial appropriation and current appropriations totalled K186,393,022 and K186,440,377 respectively indicating there had been increases to the approved original appropriation. However, I was not provided a revised budget document to verify the accuracy of the increases to the approved annual appropriation. I was also not provided evidence of approval granted by the Minister for Treasury and Finance on the 2013 budget for Sandaun Provincial Government.

##### **4. Cash Management**

There were reconciling items from prior years that were not identified and adjusted and continue to be shown in the monthly bank reconciliation statements of the Sandaun Provincial Government Operating Account and Sandaun Provincial Government Grant Account respectively.



## 5. Revenue Management

There were no segregation of duties between the functions of collection and receipting, recording and banking of revenue collections. Also, relevant records such as the collector statements, bank deposits and copies of official receipts were not adequately maintained and filed in order of number sequence for ease of reference to users. My review of revenue ledgers revealed a shortfall in revenue collections totalling K1,316,314 as at 31 December 2013.

## 6. Advances Management

I observed a serious lack of monitoring and recovery exercises on travelling allowances and cash advances resulting in amounts totalling K5,731,098 dating back to prior years and during the year being unacquitted as at 31 December 2013. The total unacquitted advances of K5,731,098 include cash advances of K4,386,746.

## 7. Grants and Subsidies

Significant amounts of payments of grants and subsidies and financial assistance to non-profit organisations, public authorities, schools, churches and individuals, lacked evidence of accountability reports by the recipients nor were there records to indicate that the Provincial Government had sought these reports.

## 8. Procurement and Payment Procedures

The audit review and test of procurement and payment procedures revealed weaknesses and breakdown in internal controls. Some of the issues identified were as follows;

- The Provincial Supply and Tenders Board Meeting Minutes were not adequately maintained and filed;
- The Provincial Supply and Tenders Board did not have in place a tender box and a tenders register to register all tenders received;
- In two instances, a District Administrator and a Deputy Provincial Administrator had authorised expenditure totalling K660,000 in excess of their designated financial limits of K50,000 and K100,000;
- Purchases of basic school curriculum materials totalling K725,650 were not sanctioned by the Provincial Authority to Pre-Commit Committee nor the expenditure was approved by the Provincial Supply and Tenders Board;
- Payments made to private contractors totalling K1,924,289 were not supported by Certificates of Completion duly certified by a competent technical staff of the Provincial Government as confirmation of satisfactory completion of work in accordance with specifications and scope of work; and
- Payments of K1,015,325 relating to purchases of building materials, equipment and school materials were not supported with evidences of delivery dockets or goods received notes.

### 5.17.2.2 Financial Statements– 2012

My reports to the Minister for Inter-Government Relations and Minister for Finance respectively under Section 113 (8a) and (8b) of the *Organic Law* on the financial statements of the Sandaun Provincial Government for the years ended 31 December 2011 and 2012 were issued on 9 May 2014 and 3 June 2014 respectively. These reports contained similar Disclaimer of Opinions, hence only the 2012 report is reproduced as follows.

## **“Basis for Disclaimer Opinions”**

### **1. Cash Balances**

I noted significant errors on the Provincial Account Balances presented in Statement ‘A’ arising from omissions and material misstatements on related statements and the corresponding books and records. Consequently, I am unable to express an opinion on the accuracy of the cash balances and the financial position of the Sandaun Provincial Government as at 31 December 2012 due to the following reasons:

- (b) The Sandaun Provincial Government cash and bank balance of K9,187,392 included the closing balances of an old Sandaun Provincial Government Operating Account of K2,603,865 and a Westpac Bank Account balance of K143,481 (overdrawn). The reported bank balances are not supported by an actual cash balance held in a bank account as these two Operating Accounts are dormant and had not been reconciled since 2010; and
- (c) The accumulated opening Provincial Revenue Fund balance of K7,207,613 could not be confirmed as correct due to inaction by Management in rectifying errors and material misstatements identified in my previous years’ audit reports.

### **2. Receipts and Payments for 2012**

Statement ‘B’, the summary statement of revenue and expenditure, showed total revenue of K64,822,609 against total expenditure of K62,897,702 and a net operating surplus of K1,924,907. I am however, unable to confirm the accuracy and therefore, the liability of the revenue and expenditure statements balances and therefore, the accuracy and reliability of the summary statement balances due to the following reasons:

- Total revenue of K64,822,609 and expenditure of K62,897,702 included the revenue and expenditure component of the Teaching Services Commission and Sandaun Provincial Administration Staffing Grants totalling K39,943,083. I was not provided the Department of Finance TMS 55 Report to verify the accuracy of the staffing grants receipts and corresponding expenditure;
- The revenue and expenditure component of the District Support Grant, Governor’s Non-Discretionary Funds and Provincial Services Improvement Program Funds were receipted to and expended out of Trust Fund Suspense Account; and
- Substantial numbers and amounts of reconciling items of revenue and expenditure for the Provincial Government Operating Account were not adjusted in the cashbook and posted to respective revenue and expenditure ledgers.

### **3. Investments**

The Provincial Government held investments in an interest bearing deposit (IBD) with Westpac Bank (PNG) Limited. The principal amount and interest earned had not been disclosed in the financial statements (Statement ‘E’).

### **4. Assets**

The Provincial Government did not update the Assets Register to account for all fixed assets purchased during the year and from prior years. Due to inadequate maintenance of the asset register and incompleteness in recording detailed information of these assets, I am unable to verify the accuracy of the value of fixed assets owned and under custody of the Sandaun Provincial Government.

## **Disclaimer of Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and accordingly, I am unable to express an opinion on the Sandaun Provincial Government financial statements for the year ended 31 December 2012.

### **5.17.2.3 Management Response**

Management had not responded to the matters raised in my Audit Management Letter queries. Consequently, I was not advised of any improvement at the time of preparing this Report.

### **5.17.2.4 Status of Financial Statements**

At the time of preparing this Report, the Sandaun Provincial Government had not submitted its financial statements for the year ended 31 December 2013 for my audit.

## **5.17.3 Vanimo General Hospital**

### **5.17.3.1 Introduction**

Vanimo General Hospital was established under the *Public Hospitals Act*. The relevant Sections of the Act as well as the *PFMA* require the Hospital Board to submit its financial statements. Relevant sections of the *Public Hospitals Act* and the *Audit Act* require the accounts and records to be audited by the Auditor-General and to be reported accordingly to the Minister responsible.

### **5.17.3.2 Financial Statements – 2012**

My report to the Ministers for Health and Finance respectively under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Vanimo General Hospital for the year ended 31 December 2011 and 2012 were issued on 27 May 2014 and 10 June 2014 respectively. These reports contained similar Disclaimer of Opinions, hence, only the 2012 report is reproduced as follows.

#### **“Basis for Disclaimer of Opinion”**

##### **1. Presentation and Discloser Errors**

Finance Instruction 02/2004 issued under Section 117 of the *PFMA* state the prescribed format for the preparation and presentation of the financial statements for Non-Trading Public Bodies. The 2012 financial statements for Vanimo General Hospital did not contain the Explanatory Notes to the Financial Statements and Schedule of Capital Assets and Liabilities. Consequently, the financial statements were not presented in the format required by the Finance Instructions.

There was a limitation of scope arising from material misstatement of cash balances due to errors and omissions of receipts and payments in the Operating and Hospital Fees Trust Accounts cashbooks and appropriate ledgers thus, resulting in reconciling differences with the bank balances. Consequently, I was unable to verify the accuracy of the consolidated closing fund balance of K2,033,447 disclosed in the financial statements.

Vanimo General Hospital did not maintain an assets register to account for all assets purchased, donated or transferred during the introduction of Hospital Boards by virtue of the *Public Hospital Act*. In the absence of the assets register and lack of appropriate information provided on all assets of the Hospital, I am unable to verify the completeness, existence and value of all fixed assets owned and in the custody of the Vanimo General Hospital at year end;

### **Disclaimer of Opinion**

Because of the significance of the matters described in the basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and accordingly, I am unable to express an opinion on the Vanimo General Hospital financial statements for the year ended 31 December 2012.

#### **5.17.3.3 Control Environment**

##### **1. Advances Management**

The controls exercised over recording, monitoring and recovery of advances was lacking. The Vanimo General Hospital did not maintain an advances register to ensure that all payments of advances such as travelling allowances, cash advances and salary advances are recorded and followed up for acquittal and recovery purposes.

##### **2. Sundry Debtors**

The Vanimo General Hospital did not maintain a proper debtor ledgers or registers to ensure that all revenues due to the Hospital from services rendered on account are recorded, followed up, collected and accounted for accordingly and the balances of debtors outstanding at year end are disclosed in the financial statements.

##### **3. Payment of Accounts**

There were instances noted where payments were incorrectly charged to vote items for which funds were not appropriated for the intended purposes. Also, I was not provided the specimen signatures of duly appointed financial delegates to verify the legitimacy of expenditures being authorised for payment.

#### **5.17.3.4 Management Response**

Hospital Management had not responded to my Audit Management Letter queries. Consequently, I was not advised of any improvements at the time of preparing this Report.

#### **5.17.3.5 Status of Financial Statements**

At the time of preparing this Report, the Vanimo General Hospital had not submitted its financial statements for the year ended 31 December 2013 for my audit.

### **5.13.4 Vanimo Urban Local-level Government**

#### **5.17.4.1 Introduction**

The Vanimo Urban Local-level Government (ULLG) submitted its financial statements for the year ended 31 December 2011. Field work associated with audit of the accounts and records were completed with the Management Letter issued and the audit opinion

report was also issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statement and the control environment.

#### **5.17.4.2 Financial Statements– 2011**

My Report to the Ministers for Inter-Government Relations and Finance in accordance with relevant provisions of the *Organic Law* on the financial statements of the Vanimo ULLG for the year ended 31 December 2011 was issued on 30 May 2014. The Report was a Disclaimer of Opinion.

##### **“Basis for Disclaimer of Opinion”**

#### **1. Cash Balances**

Statement ‘A’ showed the Vanimo ULLG Account balance as K159,102 which was also in agreement with the Operating Account closing cash balance as at 31 December 2011. However, I am unable to express an opinion on the accuracy of the cash at bank balance and consequently, on the financial position of the Vanimo ULLG as at 31 December 2011 due to:

- There was limitation of scope arising from the disclaimed audit opinion on the 2010 accounts, and
- There are issues detailed under the Receipts and Payments paragraph that affect the accuracy and reliability of the operating surplus disclosed in the summary statement of revenues and expenditure.

#### **2. Receipts and Payments**

Statement ‘B’, the summary statement of revenue and expenditure, showed total revenue of K486,739 against total expenditure of K483,831 and a net operating surplus of K2,908. I am however, unable to confirm the accuracy and therefore, the reliability of the revenue and expenditure statements balances and therefore, the accuracy and reliability of the summary statement balances due to the following reasons:

- There were reconciling items identified in the bank reconciliation statement of the Vanimo ULLG Operating Account relating to receipts and expenditure that were not adjusted in the cashbook and posted to respective revenue and expenditure ledgers; and
- Daily collections from the town market fees were retained and utilised on unauthorised purposes as well as given to staff as loans which were never repaid and accounted for on official receipts and posted to the appropriate revenue ledger.

#### **3. Assets**

The Vanimo ULLG did not maintain an assets register to account for all assets purchased during the year and from prior years. In the absence of register as well as a lack of appropriate information provided on all assets, I was unable to ascertain the existence, conditions and the value of assets held under ownership of the Vanimo ULLG at year end.

##### **Disclaimer of Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and accordingly, I am unable to express an opinion on the Vanimo ULLG financial statements for the year ended 31 December 2011.

### **5.17.4.3 Control Environment**

#### **1. Revenue Management**

There was no segregation of duties between functions of collection and receipting, recording and banking of revenue collections. The Vanimo ULLG also did not maintain a safe for safe custody of public money and in numerous instances, there had been inordinate delays in banking of revenue collections. The Vanimo ULLG fell short by K162,237 in revenue collections compared against its revenue estimates for the year.

#### **2. Advances Management**

The Vanimo ULLG did not maintain an advances register to record and monitor payment of advances to officers. In the absence of advances register, I was unable to ascertain the balance of outstanding advances as at 31 December 2011.

#### **3. Payment of Accounts**

- Claims were processed and paid without evidence of obtaining the required three verbal and/or written quotations from suppliers to determine the most economical prices for the required goods and services;
- Payments totalling K79,137 and K8,200 were paid to Ward Chairmen and Elementary Schools respectively. There was no evidence provided for my satisfaction to indicate that acquittals for these payments were sought from the recipients concerned; and
- The Vanimo ULLG incorrectly charged expenditures to vote items for which funds were not appropriated for the intended purposes.

### **5.17.4.4 Management Response**

Management had responded to my Audit Management Letter queries stating that it had taken note of the audit observations and will take appropriate remedial action to rectify and improve on the issues highlighted.

### **5.17.4.5 Status of Financial Statements**

At the time of preparing this Report, the Vanimo ULLG had not submitted its financial statement for the year ended 31 December 2012 and 2013 for audit.

## 5.18 SIMBU PROVINCE

### 5.18.1 Simbu Provincial Government

#### 5.18.1.1 Introduction

The audit of 2011, 2012 and 2013 financial statements, accounts and records were completed and the audit opinion reports were issued to the Ministers concerned. The three years audit reports were a 'Disclaimer of Opinion' and the internal control issues were common throughout therefore, only 2013 audit findings are reported below.

#### 5.18.1.2 Financial Statements – 2013

##### Financial Statements

The financial statements of Simbu Provincial Government furnished for year 2013 did not present the mandatory Appendices 2 to 5 which relates to Debtors and Receivables, Inventories, Assets, Losses and Deficiencies of the Provincial Government. This preparation and presentation did not conform to the prescribed format as stipulated by *Finance Instruction 4/2000* issued under *Section 117* of the *PFMA*.

##### Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of the Simbu Provincial Government as at 31 December 2013 due to the following reasons:

- The Opening Fund Balances for the Provincial Revenue and Trust Accounts shown in Note 3 to the Accounts as (K573,223) and K0.00 did not conform to the 2012 Financial Statements closing balances of (K247,605) and (K29,199) respectively. No source records and Explanatory Notes had been provided for my review to show for the differences in balances;
- I was unable to verify the basis for the Trust Fund balances of (K15,076,049) shown in Statement 'C' and Note 4 to the Accounts as this amount did not correspond to the transactional results of Statement 'C'; and
- The bank balance total of (K15,577,816) disclosed in Statement 'A' had incorrectly represented the total fund balance of (K21,106,976) revealing a difference of (K5,529,160). This was due to the operating account cashbook balance not corresponding to the December Bank Reconciliation balance and the reported bank balance being materially misstated by the incorrect disclosure of Statement 'B' deficit balance of K5,457,704. Consequently, the bank balance was overstated by the same amount.

##### Receipts and Payments for 2012

I was unable able to verify the accuracy of the receipts and payments and the subsequent net deficit of (K5,457,704) reported in Statement 'B' due to significant reconciling items pertaining to receipts and payments shown in the bank statements that had not been adjusted in the cashbooks and posted to the appropriate ledger accounts.

##### Investments

The Provincial Government had not disclosed any information or balances relating to investments held in its Statements 'E' and 'F' accordingly as at 31 December 2013.

noted from the revenue ledgers that dividends from investments of K60,000 had been received during the year.

I have had reported previously that the Provincial Government had held equity of K209,851 in Simbu Holdings Pty Ltd in 2003 and K189,063 in 2002. The Provincial Government had also acquired Arabica Coffee (coffee processing plant) in Goroka and Simbu, including the Yomba Coffee Factory in Kerowagi District.

In the absence of an investment register and appropriate documentation, I was unable to determine or verify the current status of these investments.

### **Assets**

The assets of Simbu Provincial Government had not been reported in Appendix 4 of the financial statements. An assets register had not been maintained, consequently I was unable to establish the total value of assets owned and in the custody of the Provincial Government as at year end.

### **Advances**

Appendix 6 showed total unacquitted advances of K6,220,239 as at 31 December 2013. I was unable to confirm the accuracy of the total outstanding advances reported as the advance register, acquittal files and related documents were not appropriately maintained.

## **5.18.1.3 Control Environment**

### **Corporate Governance**

The Provincial Government's Corporate Plan was not fully implemented in order to strengthen the capacity for the provincial and district administrations to improve on performance levels. The objectives of the Provincial Government were being pursued despite a lack of adequate resources, such as human resource.

### **Internal Audit**

The Internal Audit Unit had produced ten reports from 2011 to 2013. The reports revealed serious allegations of maladministration, mismanagement, misappropriation, lack of proper accountability, corruption and fraudulent practices. Evidence of any actions taken by management with regards to these reports was not sighted. I further noted that the Provincial Government has not had an Independent Audit Committee to oversee the activities of the Internal Audit Unit.

### **Appropriation and Budget Management**

There was no copy of the certified budget approving appropriation of K3,943,600 and expenditure of K5,453,989. Budget documents for the revised appropriation of K5,453,989 were also not available. In the absence of all budget documents and the revenue ledgers showing nil amounts in the initial and current revenue estimates, I could not verify the source and application of the estimates.

### **Revenue and Receivables**

Records and accounts in respect of the management and collection of revenue were not provided to me for my examination. In the absence of these records, I was not able to ascertain whether all revenues were properly collected, recorded and brought to account.



## **Procurement Procedures**

### Capital Works and Maintenance

The Provincial Government incurred total expenditure of K3,754,144 on capital works and maintenance programs. This expenditure was incurred in new constructions and maintenance of existing infrastructure, such as roads, bridges, electricity, buildings and others. A number of contractors were engaged in the above activities. I was unable to verify the details of expenditure and the status of projects due to non-availability of pre-qualification register and the projects progress reports.

### Grants and Subsidies

Grants and subsidies totalling K7,128,676 had been paid to various recipients during the year. Accountability reports from the recipients were not provided to me for my examination. The Provincial Government had no proper policies and guidelines to administer these funds.

### Payment of Accounts

Thirty-one paid vouchers totalling K1,424,140 had not been made available for my examination. I was not able to verify the validity of these payments.

A substantial number of claims had been approved and processed for payments without the appropriate and relevant supporting documents. Such payments are listed below:

- Instances of payments totalling K174,616 were made without the required number of three quotes. There was also no evidence of whether quotations were being obtained from suppliers as there was no quotation register maintained by the Provincial Government;
- Instances of cheques totalling K3,791,479 were drawn to the Paying Officer to enable cash payments to intended recipients. I was unable to confirm and verify if the intended recipients did receive the money as there were no accountability reports and or evidence of acquittals to substantiate the disbursement of cash;
- Expenditure on fuel amounted to K366,149. These payments were not fully supported with supporting documents, such as supplier invoices, showing details of vehicles that collected the fuel, date, quantity of fuel supplied and officer that collected the fuel. I was unable to confirm whether the fuel was consumed by Provincial Government vehicles;
- Payments as financial assistance to individual totalling K724,370 were made. Evidence of any standard criteria being followed in determining the eligibility and validity of claims received was not sighted;
- Project files for projects implemented by the Provincial Government were not provided for my review. I was unable to assess the extent of compliance to tender procedures, contract engagement processes and project monitoring and reporting processes;
- I was unable to verify a total of K2.6million paid to three construction companies under the PSIP due to a lack of records maintained by the Provincial Government;
- No accountability reports were available to show cause for Grants and Subsidies totalling K7,128,676;
- There had been instances where reimbursements of personal expenses totalling K216,575 were approved for payment. I noted that prior approval of such commitments was absent and, in most instances, lacked proper documentation to confirm the validity of the claims. It was not normal for the Provincial staff to

spend large amounts of personnel monies on behalf of the Provincial Government to claim reimbursements and it was not a normal course of business in the Government Sector; and

- There were no controls in place to govern the hiring and use of private motor vehicles from car rental companies or private owners.

### **Cash Management**

- Bank reconciliations performed for both the Provincial Operating and Provincial Grant accounts had not been reviewed and signed off by independent personnel. The lack of review had left reconciling items at year end un-cleared, reflecting unrealistic cash balances for both accounts; and
- Stale cheques dating back to 2012 had not been cancelled and written back to the accounts and notable reconciling items that were yet to be adjusted in the cashbooks were; other items totalling K732,522, un-presented cheques of K29,389,870, credits in bank statement not in cashbook amounting to K16,824,749, receipts in cashbook not in bank statement of K470 and debit in bank statement not in cashbook of K93,452.

This was reported in my Management Letter issued to the Provincial Administrator but was not responded to and corrective actions appeared to not have been taken at the time of this Report.

### **Human Resource Management**

Personnel files of employees had not been maintained appropriately and lacked personal records and information such as performance appraisals, permanent and temporary variation forms, and salaries and wages declaration forms. Without all the vital records available, I was not able to confirm the variations in salaries paid during the year. Similar situations had been reported in my previous Management Letters and have not been responded to.

#### **5.18.1.4 Management Response**

The aforementioned observations on the financial statements and internal control weaknesses for all years (2011, 2012 and 2013) had been identified and communicated to the Simbu Provincial Administrator and Management. I have highlighted the impacts of these observations and made recommendations for management considerations and improvements however, I have not received responses to these Management Letters as at the time of preparing this Report.

## **5.18.2 Kundiawa Urban Local-level Government**

### **5.18.2.1 Introduction**

An interim audit of Kundiawa Urban Local-level Government (ULLG) had been conducted without the financial statements for the period ended 31 December 2011. At the time of finalising this Report, the financial statements had not been prepared and submitted to me including the responses to my Interim Audit Management Letter. As such, I am unable to comment on the disclosure of the financial statements. The paragraphs below highlight the control issues identified with the accounts and records of the ULLG.

### 5.18.2.2 Control Environment

#### Corporate Governance

Kundiawa ULLG had no Corporate Plan in place. Other associated short-term base operational plans to set objectives and strategies to support development in financial, human resources and asset management needs had also been lacking.

#### Revenue and Receivables

##### Internal Revenue Matters

A review of controls surrounding the revenue management and record keeping revealed the following shortcomings:

- Collector statements for the year had not been made available or were missing;
- Cash collections had not been banked promptly but kept in the drawer to pay for casual staff wages; and
- No segregation of duties in relation to the collection, receipting and banking of Public Monies.

In view of the above, I was unable to ascertain the total revenue received by the ULLG for the year under review and also whether all revenue collected had been banked and accounted for in the books.

##### Debtors

I had examined the records relating to debtors and noted that there were no debtors ledgers and debtors listings maintained during the year to record debts due to the ULLG from garbage and sanitation.

In the absence of the appropriate debtors' ledgers, I was not able to ascertain the total debts due from debtors (if any) as at 31 December 2011.

#### Procurement Procedures

Kundiawa ULLG had incurred total expenditure of K294,619 during the year as compared to its estimated total of K1,433,700. I was unable to confirm this amount as accurate and complete due to no paid vouchers maintained to substantiate the amounts reported in the expenditure ledgers resulting in a limitation of scope. I was also unable to ascertain and establish the procurement and payments procedures adhered to by the Kundiawa ULLG.

#### Human Resource Management

In the absence of paid vouchers, including payroll related documents, I was unable to confirm as accurate and complete the total amount of K78,171 reported as Staff Wages and Councilors Allowances.

#### Advance Management

The Kundiawa ULLG had not maintained an Advances Register during the year to record details of advances paid and acquitted. Due to the non-maintenance of the Advances Register and paid vouchers, I was unable to ascertain the total amount of advances paid and acquitted and those advances remaining unacquitted as at 31 December 2011.

## **Cash Management**

Two bank accounts had been operated by the ULLG during the year under review. These were the Kundiawa ULLG operating account for National Government funds and the Town Services account for internal revenue funds. I was unable to ascertain the cash balances of the ULLG as at 31 December 2011 due to non-submission of the financial statements.

## **Asset Management**

The Kundiawa ULLG had not maintained an Assets Register during the year and also had not conducted annual stocktake of assets of the ULLG. As such, I was unable to ascertain the existence, custody, condition and value of assets owned by the ULLG as at 31 December 2011.

### **5.18.2.3 Management Response**

The aforementioned observations on the internal control weaknesses had been identified and communicated to the Kundiawa ULLG Management. I have highlighted the impacts of these observations and made recommendations for management considerations and improvements however, I have not received response to this Management Letter as at the time of preparing this Report.

### **5.18.2.4 Status of Financial Statements**

At the time of preparing this Report in July 2014, the interim field audits associated with the inspections of the accounts and records and the assessments of the internal control mechanisms for the years 2012 and 2013 had been completed and the results were being evaluated.

The Kundiawa ULLG had not submitted its financial statements for the years ended 31 December 2011, 2012 and 2013 for my inspection and audit.

## **5.18.3 Kundiawa General Hospital Board**

### **5.18.3.1 Introduction**

The audit of 2011 and 2012 financial statements, accounts and records had been completed and the audit reports issued to the Ministers concerned. The two years audit reports were a 'Qualified Opinion' and the internal control issues were common throughout therefore, only the 2012 report is reproduced as follows.

### **5.18.3.2 Financial Statements – 2012**

#### **Financial Statements**

The Hospital disclosed its fixed assets at a value of K5,510,390 as at 31 December 2011. I was unable to verify the completeness, existence, accuracy and value of the fixed assets as at year end due to a lack of a complete fixed assets register. Further, the values of assets purchased and some donated to the Hospital were not recorded in the register. The fixed assets register was not regularly updated.

### **5.18.3.3 Control Environment**

#### **Appropriation and Budget Management**

Review of the Hospital's operating budget appropriation of K9,310,200 compared to its actual expenditure of K12,224,307 had revealed a net overspend of K2,914,107. Approximately K2 million of the overspent monies was from item 111, while the net of K914,000 was from other operational items.

**Procurement Procedures**

- Formal appointment instruments for financial delegates, who have examined, certified and approved claims and their approved limitations (for Section 32 Officers) were not made available for my examination. In the absence of formal appointment instruments, I was unable to confirm the validity of persons who have acted in those positions during the year; and
- Payment vouchers for instances of payments in excess of K140,000 were not sighted. The validity and accuracy of the payments could not be confirmed.

**Advances Management**

Instances of advances paid for travel expenses had not been acquitted appropriately with supporting documents of boarding passes and valid receipts from service providers to confirm duration of duty travel and that services had actually been utilised for their intended purposes.

**Asset Management**

The Hospital maintained a comprehensive fixed assets register which had a total value of more than K5.5 million. I was unable to confirm the amount reported due to the cumulative values of the different types of assets maintained not being reported. Also, not all values of assets, whether purchased or donated to the Hospital, were recorded in the register.

**Human Resource Management**

Instances of variances in base salary paid to public servants was revealed by payroll records against the Department of Personal Management salary rates (issued "salary structure 2011-2013").

**5.18.3.4 Management Response**

The aforementioned observations on the financial statements and internal control weaknesses for both years (2011 and 2012) had been identified and communicated to the Chief Executive Officer and Management of the Hospital. I have highlighted the impacts of these observations and made recommendations for management considerations and improvements however, I have not received responses to these Management Letters as at the time of preparing this Report.

**5.18.3.5 Status of Financial Statements**

At the time of writing this Report in July 2014, the Kundiawa General Hospital had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

**5.18.4 Business Arms of Simbu Provincial Government**

The Simbu Provincial Government had not disclosed any of its business arms or investments if any, in its financial statements from 2011 to 2013.

I have noted and repeatedly reported that:

- The Simbu Provincial Government has had equity in Simbu Holdings Pty Ltd. The submission of financial statements by this entity for audit purposes has been pending. As such, the status of this entity for audit is unknown; and

- The Provincial Government had also acquired Arabica Coffee in Goroka and Simbu including the Yomba Coffee Factory in Kerowagi District. The status of these two investments for audit purposes was still unknown at the time of this Report.

## 5.19 SOUTHERN HIGHLANDS PROVINCE

### 5.19.1 Southern Highlands Provincial Government

#### 5.19.1.1 Introduction

The audit of 2011 and 2012 financial statements, accounts and records were completed and the audit opinion reports were issued to the Ministers concerned. Both years audit reports were a 'Disclaimer of Opinion' and as the internal control issues were common throughout, therefore only 2012 audit findings are reported below.

#### 5.19.1.2 Financial Statements – 2012

##### Audit Observations on the Financial Statements

The Governor's statement on the Provincial Budget Performance was not signed. The total actual collections of K95,611,300 from National Government grants reported in the Governor's statement could not be confirmed to the grant revenue ledgers, cash book, financial Statements 'B' and 'J' respectively, thus understating its revenue and overall Provincial Fund Balance in Statement 'A'. This has been a recurring problem from prior years.

##### Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of the Southern Highlands Provincial Government as at 31 December 2012 due to the following reasons:

- The provincial revenue fund balance of K423,297,068 as shown in financial Statement 'A' and in Note 3 to the accounts could not be confirmed as correct due to incorrect carried forward revenue and trust fund balances and other material errors and limitation of scope expressed in my previous audit reports;
- The prior year's adjustments of K137,227,559 disclosed in Note 3 to the accounts was incorrectly disclosed twice and also as sub-total and the figure could not be confirmed as to how it was derived and no record was provided for me to confirm;
- A favorable accumulated fund balance of K423,289,678 was disclosed but that is inconsistent as represented by bank and investments balance showed as overdrawn. In the absence of proper bank reconciled figures, I could not confirm the accumulated fund balance as at 31 December 2012; and
- The trust fund balance of (K7, 390) which relates to court and police bails and child maintenance is a carried forward balance from previous years and need to be written off accordingly. It does not form part of the Provincial Government accounts and was incorrectly included in the total of cash at bank. The same figure was disclosed in 2009, 2010 and 2011 financial statements 'A'.

##### Receipts and Payments for 2012

I was not able to verify the accuracy of the receipts and payments and subsequently the accuracy of the operating deficit of K68,606,389 in Statement 'B' and the related Statements 'J' and 'K' due to:

- Statement 'J' showed actual receipts were only K124,938,581 out from the total budget of K151,580, 000 resulting in a revenue shortfall of K26,641,419. This was due to National Government grants and internal revenues from natural resources

benefit receipts not recorded in the cash book and the revenue ledgers and not reported in Statement 'J' and other subsequent Statements 'A', 'B' and 'D'. This has been a continuous problem which has been highlighted in my previous years reports;

- Staffing and Teacher's salaries grants of K27,305,000 and K44,075,000 respectively, totalling K71,380,000 disclosed in the financial Statements 'B', 'J' and 'K' was noted to be the budget figure and it could not be confirmed to actual figures expended from Department of Finance salaries section due to unavailability of the TMS 55 Report. As such, I was not able to establish the actual from budgeted figures; and
- Entire national grants received were not itemised and posted to the respective revenue heads in their respective ledgers per budget estimates;

### **Investments**

The Statement revealed investment in IBD of K2,000,000 held in BSP Ltd stated that an interest earned for the year (2012) amounted to K1,160,000. The interest income was not disclosed in Statements 'J' and 'B'.

I have previously reported that the Provincial Government also holds K60,000 investments in shares with SHP and Gulf Energy accruing interest at 60% and K100,000 investments in shares with Kaupena Coffee Exports accruing interest at 60% per annum. However, interest received, if any, related to the above investments were not disclosed in the Statement. Furthermore, these amounts should have been disclosed in Statement 'F' due to the nature of investments.

In the absence of an Investment Register and other documentation it was not possible for me to form a view as to whether there are other investments that should be disclosed. This observation has been also reported in our 2008 to 2012 Management Letters but no explanation was given;

### **Assets**

Appendix 4 of the financial statements surprisingly indicated "nil" assets as at December 2012. However, I am aware of assets worth thousands of Kina acquired in prior years and current year were not disclosed in this appendix. Assets totalling K2,983,096 extracted by Audit were noted to have been purchased during the year were not recorded, resulting in significant understatement of the appendix. In the absence of a complete Assets Register and annual stocktakes, I was unable to confirm the completeness and value of assets owned by the Southern Highlands Provincial Government as at 31 December 2012.

### **Advances**

Appendix 6 revealed total unacquitted advances of K1,094,486 as at 31 December 2012. However, the expenditure ledgers revealed the travel and cash advances totalling K5,148,004 were expended during the year. In the absence of proper accountability and lack of audit trail, I could not confirm the stated unacquitted total and also confirm whether prior year's outstanding advances have been duly acquitted.

#### **5.19.1.3 Control Environment**

##### **1. Corporate Governance**

The Provincial Government may have a Corporate Plan, but this was not made available for Audit. The Corporate Plan should encompass and establish long-term objectives, set



priorities and targets and take into account the requirements of its stakeholders. The associated plans that need to be established to support the Corporate Plan should also be established. These plans are: financial, asset management, human resource, information technology, risk management, and divisional operating plans.

## **2. Work of Internal Audit**

Internal Audit Unit has completed six reports from 2009 to 2011. The reports revealed serious allegations of maladministration, mismanagement, misappropriation, lack of proper accountability, corruption and fraudulent practices. However, evidence of any actions taken by management with regards to these reports was not sighted. It was also highlighted in my previous year's reports.

## **3. Appropriation and Budget Management**

There were no proper controls on the Provincial Government Budget. Both appropriations, original of K211,530,000 and revised of K167,089,500 did not correspond to the total amount shown in the ledgers, which shows K211,468,000 and K246,132,567, respectively. There were weaknesses in posting entries to the computer, lack of proper controls and monitoring;

## **4. Revenue and Receivables**

National Government grants and internal revenues were not fully accounted for in the books of the Provincial Government, hence significant revenue shortfalls were noted in both sources of income as compared to the budgeted revenue.

There was no segregation of duties by officers on the collection and banking of receipts. Instances of delays in banking ranging from 8 to 79 days were noted. I was unable to verify deposits against bank statements due to bank statements not made available although numerous requests were made. Many items of revenue that were budgeted had no receipt recorded on the revenue ledgers. The Revenue Division lacks adequate resources such as office equipment, working furniture and appropriate people for collecting revenue for the Province.

The entire national grants received were not itemised and posted to the respective revenue heads in their respective ledgers per budget estimates.

## **5. Procurement Procedures**

### **a. Procurement Management**

The instrument establishing the Provincial Supply and Tenders Board, meeting minutes and resolutions of meetings convened by the Board during the year and registers maintained to record all tenders invited, quotations received, contracts awarded and Certificates of Inexpediency issued were not made available, which indicates that the Provincial Supply and Tenders Board did not function as an effective authority.

Various contractors and suppliers were awarded contracts and services during the year. However, completion stage could not be properly verified due to absence of a proper status reports, progressive reports and completion reports for each of the projects awarded to various contractors.

### **b. Capital Works and Maintenance**

The Provincial Government incurred total expenditure of K20,689,811 on the capital works and maintenance program. These expenditures were incurred in new constructions

and maintenance of existing infrastructures such as roads, bridges, electricity, and buildings. A number of contractors were engaged in the above activities but I was unable to verify the details of expenditure due to non-cooperation of relevant officers on the ground to provide information requested.

**c. Grants and Subsidies**

Grants totalling K11,800,000 were paid to various recipients during the year. However, accountability reports from the grant recipients were not provided for examination, although requested.

**d. Transport Fleet Control**

Eleven vehicles totalling K1,619,009 were purchased during the year. However, no updated detailed Provincial Vehicle Fleet Register (including disposals) was maintained by the Provincial Government. Also, there was no control over purchases and monitoring of Provincial Government vehicles.

**e. Payment of Accounts**

- In most instances, procedural deficiencies such as claims not certified and examined by respective Certifying and Examining officers have occurred;
- There were instances where reimbursements of personal expenses totalling K764,159 were approved for payment, however prior approval of such commitments was not evident and in most instances lacked proper documentation to confirm the validity of the claims. It was not normal for the Provincial staff to spend large amounts of personnel monies on behalf of the Provincial Government to claim reimbursements and it is not a normal course of business in the Government Sector;
- Seventeen instances of payments totalling K114,071 relating to fuel purchase were not supported with proper documentations such as supplier invoices showing details of vehicles that collected fuel, date, liters of fuels supplied and officer that collected fuel and the relevant approvals;
- Payments as financial assistances to individual totalling K2,047,505 were made; however evidence of any standard criteria being followed in determining the eligibility of claims received were not sighted;
- Expenditure totalling K221,372 for hire cars lacked adequate supporting documents such as three written quotations, invoices and reason for hire to substantiate the payments; and
- A total payment of K169,400 was made for accommodation rentals, however, the related lease agreements, if any, were not provided for my examination. As such I was not able to verify whether payments were made in accordance with the terms and conditions of lease the agreements.

**6. Cash Management**

No bank reconciliations were completed for the grant account since it was established in 2010. For the Provincial Government internal revenue account, the reconciliation items totalling K629,853,220 needed to be identified and cleared as, some of these items dated back to the previous years. Not promptly adjusting the cash books and bank statements have led to significant understatement of revenue and expenditure ledgers and causing the cash book to operate an unrealistic balance.

Notable reconciling items that needs prompt adjustments are: other items totalling K5,936,137; unpresented cheque K42,608,938; credits in Bank statement not in cash book K451,045,861; receipts in cash book not in bank statement K90,511,175; and debit in bank statement not in cash book K297,829. This was reported in my Management Letter issued to the Provincial Administrator but was not responded to and corrective actions appears to be not taken at the time of this Report.

## **7. Human Resource Management**

The Staff Establishment Register for the permanent and casual employees under both Divisions 277 and 705 were not made available. The Register acts as a guide to the organisation on the number and levels of positions approved by competent authorities. Without the Register, it was difficult to determine what positions were filled and what positions were still vacant. As such, I was unable to determine whether employees on the organisation's payroll are bona fide and the positions that they held were approved by the Department of Personnel Management. Similar situations reported in our previous Management Letters have not been responded to.

### **5.19.1.4 Status of Financial Statements**

At the time of writing this Report in July 2014, the Southern Highlands Provincial Government has not submitted its financial statements for the year ended 31 December, 2013 for my inspection and audit. The interim field audit associated with the inspection of the accounts and records and the assessment of the internal control mechanisms for the year 2013 has commenced at this time.

## **5.19.2 Mendi Urban Local-level Government**

### **5.17.2.1 Introduction**

An interim audit of Mendi Urban Local-level Government had been conducted without the financial statements for the period ended 31 December 2011. At the time of finalising this Report, my audit management letter had not been responded to. The paragraphs below detail the issues identified with the accounts and records of the Urban Local-level Government.

### **5.19.2.2 Financial Statements – 2011**

The Financial Statements for Mendi ULLG for the year-ended 31 December 2011 had not been prepared and furnished to Audit as requested. Matters highlighted below are the interim assessment of internal controls. My review revealed observations which may explain why the Financial Statements were not produced:

- The Management Team appeared to be lacking leadership where there was no coordination and cooperation within the management team. As such there could be no control and direction from the management level and the performance from all levels of employees appeared to be lacking;
- I was of the view that the ULLG does not have any competent accounting staff properly trained and experienced to perform accounting duties; and
- There could be political interferences that influenced the administrative operation of the ULLG.

### **5.19.2.3 Control Environment**

#### **1. Work of Internal Audit**

The Internal Audit Unit of Southern Highlands Provincial Administration had failed one of its responsibilities and duties by not conducting any audit into the routine operations

of the ULLG during the year under review so that weaknesses or deficiencies could be reported to management on a timely basis for corrective actions to be taken.

## **2. Appropriation and Budget Management**

Review of the revenue and expenditure budget and related documents noted that the ULLG had not maintained the revenue and expenditure ledgers. As such I was unable to ascertain the total revenue collected and total expenditure made during the year and also whether the revenue collected and expenditure made were within the budget estimates.

## **3. Revenue and Receivables**

### **a. Internal Revenue Matters**

A review of controls surrounding the revenue management and record keeping revealed the following shortcomings:

- Revenue Ledgers had not been maintained during the year to record revenue received;
- No segregation of duties in relation to the collection, receipting and banking of Public Monies;
- No proper receipts and tickets been issued especially in the Market Gate Collections;
- There had been delays in the banking of collections and furthermore, some monies had not been banked at all; and
- The ULLG had no safe to safely keep the daily collections for banking the next day.

In view of the above, I was unable to ascertain the total revenue received by the ULLG for the year under review and also whether all revenue collected had been banked and accounted for in the books.

### **b. Debtors**

I had examined the records relating to debtors and noted that there were no debtors ledgers maintained during the year to record debts due to the ULLG.

In the absence of the appropriate debtors' ledgers, I was not able to ascertain the total debts due from debtors (if any) as at 31 December 2011.

## **4. Procurement Procedures**

The ULLG had not maintained the expenditure ledgers and the files and records for paid vouchers maintained were improper and incomplete. In the absence of these important documents I was unable to ascertain and establish the procurement and payments procedures adhered to by the Mendi ULLG.

The Mendi ULLG had not maintained an Advances Register during the year to record details of advances paid and acquitted. Due to the non-maintenance of the Advances Register and expenditure ledgers, I am unable to ascertain the total amount of advances paid and acquitted and those advances remaining unacquitted as at 31 December 2011.

## **5. Cash Management**

Two bank accounts had been operated by the ULLG during the year under review. These were the Mendi ULLG operating account for National Government funds and the Mendi market trust account for market takings. I was unable to perform any audit checks and

also to ascertain the cash balances of the ULLG as at 31 December 2011 due to no cash books and bank reconciliations for both accounts being furnished to me for my review.

## **6. Asset Management**

The Mendi ULLG had not maintained an Assets Register during the year and also had not conducted annual stocktake of assets of the ULLG and as such, I am unable to ascertain the existence, custody, condition and value of assets owned by the Mendi ULLG as at 31 December 2011.

## **7. Human Resource Management**

In the absence of expenditure ledgers, payroll, wages sheets and related documents, I was unable to ascertain the total expenditure incurred on salaries and wages during the year and also on the correctness of the total expenditure incurred.

### **5.19.2.3 Status of Financial Statements**

At the time of writing this Report in July 2014, the Mendi ULLG had not submitted its financial statements for the years ended 31 December 2012 and 2013 for my inspection and audit. The interim field audit associated with the inspection of the accounts and records and the assessment of the internal control mechanisms for the two years has commenced at this time.

### **5.19.3 Mendi General Hospital Board**

#### **5.19.3.1 Introduction**

The audit of 2011 and 2012 financial statements, accounts and records had been completed and the audit reports issued to the Ministers concern. The Reports contained similar Disclaimer of Opinions and the internal control issues were common hence, only the 2012 report is reproduced as follows.

#### **5.19.3.2 Financial Statements – 2012**

Finance Instruction 2/2004 issued under Section 117 of the *PFMA* the prescribed format for the preparation and presentation of the financial statements for public bodies. Mendi General Hospital's financial statements for 2012 were presented in the prescribed format, except that schedules of assets and liabilities together with part of the explanatory notes to the statements were not shown.

The Hospital had incorrectly accounted for a grant of K500,000 that was meant for Mendi School of Nursing. The money was deposited by National Department of Health into the hospital's operating bank account dated 27 December 2012. Consequently, the grant reported on the hospital's financial statement was overstated.

Financial statement figures reported under the fees trust could not be accurately confirmed due to revenue ledgers provided had incomplete or no records.

The accumulated opening fund balances for the operational and trust accounts disagreed with the closing balances for the 2011 financial year. The same was also for the opening balances for 2011 financial statement which did not agree to the 2010 year end balances.

The total closing fund balance reported of K10,821,936 was not accurately represented by the total bank balance of K10,876,211 that was stated on the fund balance statement, revealing a difference of K54,275.

### 5.19.3.3 Control Environment

#### 1. Appropriation and Budget Management

The hospital's original budget appropriation of K10,968,800 compared to its actual expenditure of K11, 294,858 on the operating account had revealed a net over spending of K326, 058. Due to proper commitment ledgers not adequately maintained to ensure expenditures were within the budget, the hospital was prone to have gone over the budget in its spending.

#### 2. Revenue and Receivables

The weaknesses noted were instances of delay in deposits of at least 1-7 days, independent checks on internal revenue collected had not been done before banking; and revenue ledgers not updated for recording and accounting for revenue by the hospital.

#### 3. Procurement Procedures

Review of the procurement procedures and payments revealed the following weaknesses:

##### a. Payment Procedures

- Formal appointment instruments for financial delegates, who have examined, certified and approved claims and their approved limitations (for Section 32 Officers) were not made available for my examination. In the absence of formal appointment instruments, I was unable to confirm the validity of persons who have acted on those positions during the year;
- Significant payments made to various suppliers and service providers lacked procurement documentation such as no written request, no written quotations, no supplier invoices and no delivery notes. Also, the Requisitions for Expenditures were not signed by the chief accountable officer or his delegate to authenticate their approval;
- Instances of payments totalling K78,824 for officers of the hospital on fulltime study at UPNG, Divine World University, PNGIPA and other institutions lacked a binding agreement between the hospital and each officer on study to ensure their service was given back for a certain period of time after completing their studies. The risk could be after completing studies, people can go off to find jobs elsewhere, while the Hospital would be losing on the services of which expenses had been incurred to fund their studies. Also, supporting documents of acceptance letters, school fee details, etc., from respective institutions to substantiate the payments made for the officers on study were not sighted;
- Birth certificates or concessions for more than 4 dependents and/or students under 18 years of age for each of the family were not sighted on six instances of payments totalling K37,863 for recreation leave fares;
- Formally approved recreation leave forms had not been sighted on few instances of recreation leave fares that were processed; and
- Transactions of the hospital being kept on a manual spread sheet constituted high risk of manipulation on the data (figures and information) that were recorded and subsequently reported in the financial statements.

##### b. Advances Management

An examination of the records and details of advances noted that instances of advances paid for travel expenses, had not been acquitted with supporting documents of boarding

passes and ticket butts from air service providers, valid receipts from accommodation and vehicle hire service providers to confirm duration of duty travel and that services had actually been utilised for their intended purposes. Also, no supporting documents had been sighted to confirm the purpose of those travels that had been taken by officers on duty.

#### **4. Asset Management**

The Hospital maintained a comprehensive Fixed Assets Register which had a total value of more than K2.2 million. The review of the registers, ledgers and the related records revealed the following:

- The Assets Register lacked vital information such as the dates of purchases for the assets that had been bought or disposed since 2009 up to current (2012) and values of motor vehicles including biomedical equipment bought by the Hospital together with those that had been donated had not been recorded. Also, values of land and buildings which are owned by the Hospital have yet to be valued (by professional valuers) and to be recorded in the comprehensive assets register;
- The comprehensive Assets Register had not been constantly updated to capture the additions and disposal during the year. Instances of assets totalling K190,473 purchased during the year were noted to have not been recorded; and
- Proper stocktakes on all the assets had not been undertaken to ensure controls were effective and these assets had been properly managed.

#### **5. Human Resource Management**

Review of the payrolls, personal files and related records revealed the following issues:

- Payrolls obtained from the Department of Personal Management (DPM) were incomplete and as such timely reconciliation of payroll was not possible. I noted that the personal section had not been checking with DPM constantly to ensure complete payrolls were received;
- Total allowances paid to various clinical staff (apart from medical staff) could not be verified accurately as the amount of allowances paid to these officers under their different medical category were not clearly identified to their respective awards;
- Most employees had been paid at salary levels above their grades of which payroll records did not reconcile to the grades stated on the staff establishment records provided. As such, I was unable to comment if staff information on salaries and allowances kept by the hospital was in line with the DPM's records; and
- Overtime requests from respective heads of sections detailing scope of work that required employees to do after hours had not been sighted to confirm payments paid to various employees on few instances. Also, instances of overtime forms not been duly signed by respective financial delegates.

##### **5.19.3.4 Status of Financial Statements**

At the time of writing this Report in July 2014, the Mendi General Hospital has not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit. The interim field audit associated with the inspection of the accounts and records and the assessment of the internal control mechanisms for the year 2013 has commenced at this time.

## 5.20 WEST NEW BRITAIN PROVINCE

### 5.20.1 West New Britain Provincial Government

#### 5.20.1.1 Introduction

The audit of 2011 and 2012 financial statements, accounts and records were completed and the audit opinion reports were issued to the Ministers concerned. The two years audit reports were a Disclaimer of Opinion and as the internal control environment issues were common throughout, therefore only 2012 audit findings are reported below.

#### 5.20.1.2 Financial Statements – 2011 and 2012

The financial statements were contrary to the prescribed format as outlined in *Finance Instruction 5/2000* issued under Section 117 of the *PFMA* detailing the preparation and presentation of the financial statements for Provincial Governments. It was noted that the presented financial statement of West New Britain Provincial Government 31 December 2011 and 2012 had not been duly signed by approved personnel to authenticate the report as legal document representing a true and fair view of financial activities. Similarly, there were also significant errors, omissions, misstatements and unreliable internal control environments that had materially affected the reported balances and consequently the fund balance. I am therefore unable to verify the accuracy and completeness of the financial statements due to the issues related to both internal control environment and fund balances as summarised in the paragraphs below.

#### Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of the West New Britain Provincial Government as at 31 December 2012 due to the following reasons:

- The error and omissions related to year-end cash balances resulting in the difference of K425,390 render Statement 'A' and therefore the Provincial Account Balance of K20,996,938 as at 31 December 2012 inaccurate and unreliable; and
- Statement 'E' had no disclosure attached regarding short-term investments held. The Provincial Government in fact holds New Britain Palm Oil Limited Trust Deed No.01 and 02 Term Deposits with Bank South Pacific and Westpac Banking Corporation respectively. A review of the revenue ledgers revealed a receipt of K3,388,000 in trust investments where these were not reflected in this Statement.

#### Receipts and Payments

I was unable to verify the accuracy of the receipts and payments reported as K117,395,424 and K97,424,402 respectively and subsequently the correctness of the operating surplus of K19,971,022. The disclosure of funds as at December 2012 was not reliable and misleading due to the following reasons:

- The total actual revenue of K117,395,424 included from prior years' functional grant receipts totalling K15,605,893 should have been disclosed in the Notes to that effect as these are not actual receipts for the current reporting year; and
- The Public Servants and Teachers' Salaries actual receipts and expenditures totalling K13,073,870 and K32,997,389 respectively were not taken up in the respective revenue and expenditure ledgers or shown as notes to the accounts as these were provided for in the Annual Appropriation Act. The actual expenditure relating to Public Servants and Teachers' Salaries were in excess of the Warrant Authority released amounts of K12,584,000 and K28,520,300 respectively



resulting in unbudgeted expenditure of K4,966,959 on salaries.

### **Investments**

Statement 'F' on Direct Investments, Capital Contributions, Equity, Options and Rights did not disclose any information nor balances relating to long-term investments held by the Provincial Government. I have noted that the West New Britain Provincial Government held different investments under business arms, including Cape Hollman Corporation, West New Britain Development Corporation, West Farm Resources Limited and Mokmok Development Corporation. In the absence of the audited financial statements of these investment companies as well as the investment registers to be held by the Provincial Government, I am unable to ascertain the status and existence of the investment companies.

### **Assets**

Appendix 4 of the financial statements interestingly indicated no assets as at December 2012. There were assets worth K1,664,462 acquired both prior and current years not disclosed in this Appendix. In the absence of a complete assets register and annual stocktakes, I am unable to confirm the existence and complete value of assets owned by the Provincial Government as at 31 December 2012.

### **Advances**

Appendix 6 revealed total unacquitted advances of K978,920 as at 31 December 2012. Similarly, there were two payments of cash advances totalling K9,000 not reflected in the PGAS advances register and appeared not to have been incorporated in this Appendix. Consequently, I am unable to rely on the completeness and accuracy of the reported unacquitted advances at year end.

There were salary advances paid to newly engaged officers over three consecutive pay periods in 2010 whilst due processes relating to formalities for new appointments with the Department of Personnel Management and input of personal data into the Department of Finance Alesco payroll system were being undertaken. My review on salary advance records revealed several officers had not repaid the salary advances totalling K152,700.

## **5.20.1.3 Control Environment**

### **1. Corporate Governance**

The Provincial Government has developed a Corporate Plan in conjunction with the Integrated Provincial Development Plan for 2012 to 2015. The Plans were focused on some important Key Results Areas (KRAs) that would enable the Provincial Administration to advance in delivering and maintaining existing government services to the people.

### **2. Work of Internal Audit**

The Internal Audit Unit has not done its core responsibility in preparing an annual work plan and conducting its regular audits. This was compounded within adequate funding and lacked the necessary logistical support to effectively and efficiently perform its anticipated tasks. Additionally, the Provincial Government had not established an independent Audit Committee to oversee the activities of the Unit.

### **3. Appropriation and Budget Management**

The Appropriation Act of 2012 which provides the legal basis for the Provincial Government to raise the estimated revenue and incur the corresponding amount of expenditure totalling K132,314,400 as at 31 December 2012 was not made available at the time of preparing this Report. The 2012 Budget however, was approved by the Minister for Treasury and Finance on 18 January 2012.

A review on the postings of appropriations presented as current appropriations in the expenditure ledger reports revealed the approved appropriation for Division 717 on internal revenues had increased from K65,167,900 to K65,219,900, an increase of K52,000 whilst Division 289 remained unchanged at K67,146,500. However, I was not provided with a revised budget to verify the accuracy of the increase to the annual appropriation of internal revenues as well as to determine whether the increases were proper and approved by the appropriate authorities. In the absence of an approved revised budget this could render the increases to the annual appropriation null and void.

### **4. Revenue and Receivables**

The National Government grants and anticipated internal revenues of K23,061,019 have not been fully collected, resulting in significant revenue shortfalls of receipts totalling K8,881,858 as compared to the budgeted income.

I was unable to verify the completeness and accuracy of the revenue collected during the year totalling K8,029,760 due to the relevant revenue records not adequately maintained to vouch from the source documents.

### **5. Procurement Procedures**

#### Procurement Management

The Instrument establishing the Provincial Supply and Tenders Board, meeting minutes and resolutions of meetings convened by the Board during the year and registers maintained to record all tenders invited, quotations received, contracts awarded and Certificates of Inexpediency issued were not made available. This clearly indicates that the Provincial Supply and Tenders Board did not function as an effective authority. There were several contracts and services awarded during the year where I am unable to verify the completion stage. This is due to absence of a proper status reports, progress reports and completion reports for each of the projects awarded.

#### Capital Works and Maintenance

The Provincial Government had incurred a total of K4,500,000 as counter-part funds to the Department of Works for the capital works and maintenance program. My review of the WNB Provincial Supply and Tenders Board meeting minutes for the year did not show evidence to indicate the expenditure of such a significant amount was sanctioned by the Provincial Authority for pre-commitment. The same was neither approved by the Provincial Supply and Tenders Board. Additionally, the expenditure of K4,500,000 exceeds the threshold limit of the PSTB where I am unable to confirm the expenditure as genuine and approved by authorities.

#### Grants and Subsidies

The Provincial Government paid grants, subsidies and financial assistances totalling K4,177,829 to various recipients. I am unable to verify and confirm whether the

anticipated programs were fully carried out with the given grants due to the absence of accountability reports though requested at the time of preparing this Report.

#### Payment of Accounts

- Instances of several payments totalling K51,137 were not supported by relevant invoices;
- There were several payments totalling K223,888 not supported by the required three verbal and/or written quotations from suppliers;
- Payment vouchers with relevant supporting documents relating to expenses totalling K358,587 were missing from files; and
- A return recreational leave fares of K22,823 was paid for an officer and his family including two dependents over the age of eighteen years. The two over age dependents were noted to be attending tertiary institutions contrary to and in breach of Section 14 of the Public Service General Orders.

### **6. Cash Management**

There were material reconciling items noted in the bank reconciliation statements against the Operating Account and WNB Revenue Fund Account relating to receipts and expenditure that were not adjusted in the cashbooks and respective revenue and expenditure ledgers.

### **7. Human Resource Management**

The staff establishment registers for the permanent and casual employees under both Divisions 277 and 705 were not properly kept and produced for my confirmation. This register acts as a guide to the organisation on the number and levels of positions approved by competent authorities such as DPM. Without the register, it was difficult to determine what positions were filled and which were vacant. Given this situation, I was unable to determine whether employees on the organisation's payroll are genuine and the positions that they held were approved.

#### **5.20.1.4 Status of Financial Statements**

At the time of preparing this Report in July 2014, the West New Britain Provincial Government has not submitted its financial statements for the year ended 31 December, 2013 for my inspection and audit.

#### **5.20.2 Kimbe Urban Local-level Government**

##### **5.20.2.1 Introduction**

The audit of 2011 financial statements, accounts and records were completed and the audit opinion report was issued to the Ministers concerned. The audit report was a Disclaimer of Opinion and the audit findings including internal control issues are reported below.

##### **5.20.2.2 Financial Statements**

In line with the prescribed format of the Finance Instruction 5/2000 issued under Section 117 of the *PFMA*, the Kimbe Urban Local-level Government (Kimbe ULLG) has complied with the prescribed format in preparing the financial statements of 31 December 2011. In the presented financial statements, I have noted significant errors, omissions, misstatements and unreliable internal control environments existed that had materially affected the reported balances and consequently the fund balance. I was

therefore, unable to verify the accuracy and completeness of the financial statements due to the issues related to both fund balances and internal control environment as summarised in the paragraphs below.

### **Cash Balances**

I was unable to verify the accuracy of the cash at bank and trust account balances and consequently, on the financial position of Kimbe ULLG as at 31 December 2011 due to the following reasons:

- The Kimbe ULLG cash and bank balance of K336,723 could not be confirmed as correct due to errors and material misstatements of the revenue and trust fund account balances; and
- The Kimbe ULLG revenue fund of K92,893 disclosed as overdrawn could not be confirmed as correct due to errors and material misstatements of the operating deficit.

### **Receipts and Payments**

I was unable to confirm the accuracy of the reported revenue K2,136,676 and expenditure of K2,151,190 respectively in Statement 'B' with an operating deficit of K14,514 as at 31 December 2011. The total revenue disclosed in the presented financial statements could not be confirmed as correct due to the prior years' appropriation receipts of K1,377,450 included in the balance.

## **5.20.2.3 Control Environment**

### **1. Work of Internal Audit**

The Internal Audit Unit of Kimbe Provincial Administration had failed one of its responsibilities and duties by not conducting any audit into the routine operations of the Kimbe ULLG during the year under review. Hence, the weaknesses of the Administration could not be reported to management on a timely basis for corrective actions to be taken.

### **2. Appropriation and Budget Management**

A review of the revenue and expenditure on the annual budget for the Urban LLG as reported its budget estimates of K2,860,500 noted that the figure disclosed could not be relied on as correct. This is as the Annual Appropriation Act of 2011 was not provided to enable confirmation.

### **3. Revenue and Receivables**

A review of controls surrounding the revenue management and record keeping revealed that the Kimbe ULLG internal revenue sources are centered on rendering services which requires periodic issuing of invoices and debit notes in order to collect the internal revenues. In the absence of proper debtors' ledgers and other related records, I was not able to ascertain the existence and accuracy of outstanding debts at year end.

### **4. Procurement Procedures**

The Kimbe ULLG had paid a total of K149,253 as consultancy fees to a company to provide detailed design and documentation for the Kimbe Town Facelift Development Project. I was not provided the related documents and evidence to confirm whether there were proper tendering procedures followed in engaging the Consultants. Additionally,

the payments were not supported with the required three written quotes obtained from suppliers.

## **5. Cash Management**

Kimbe ULLG has an Operating Account and its monthly bank reconciliation statements were fully prepared with a closing bank balance of K857,440 as at 31 December, 2011. However, I was unable to verify the closing bank balance and its monthly bank reconciliation statements as correct due to the following reasons:

- There were several material amounts of reconciling items which were not adjusted in the cashbook and their respective ledger accounts resulting in an unadjusted cashbook balance of K366,723 as shown in the statements;
- There were many outstanding receipts not in the bank statement totalling K160,071 dating back many years not accounted for;
- Dishonored cheques totalling K1,120 dating back many years. There was no evidence regarding this amount attached to indicate whether any appropriate action had been taken to recoup the value;
- Under-banking of monies dating back to 2007 totalling K18,101 had not been investigated and appropriate recovery action taken against the officers concerned;
- There were cheques on the bank statement totalling K134,676 dating back several years referred to as invalid cheques debited to Kimbe ULLG Operating Account. These cheques have never been investigated and cleared to reach the correct bank balance; and
- There were other items either debited or credited to the Operating Account shown in Schedules 6 and 11 of the bank reconciliation statement totalling K301,635 and K173,870 respectively. These items were not related to Kimbe ULLG Operating Account where necessary actions had never been taken to identify and get cleared with the bank concerned.

## **6. Asset Management**

Appendix 4 of the financial statements surprisingly indicated no assets as at December 2012. There were assets worth K19,509 purchased during the year that had not been disclosed in this Appendix. In the absence of a complete assets register and annual stocktakes, I was unable to confirm the existence, custody and total value of assets owned by the Kimbe ULLG as at 31 December 2011.

## **7. Advances**

Appendix 6 of the financial statement had interestingly no disclosure of outstanding advances as at December 2011. A review conducted on the ledgers revealed a total outstanding on travel and cash advances including prior years of K409,712 paid as advances. In the absence of proper advance registers and acquittal files, I was unable to verify and confirm the actual total advances outstanding and if there was any acquitted during the year.

## **8. Human Resource Management**

In the absence of expenditure ledgers, payroll, wages sheets and related documents, I was unable to ascertain whether the correct expenditures incurred on salaries and wages during the year.

#### **5.20.2.4 Status of Financial Statements**

At the time of writing this Report in July 2014, the Kimbe ULLG had not submitted its financial statements for the years ended 31 December 2012 and 2013 for audit.

### **5.20.3 Kimbe General Hospital Board**

#### **5.20.3.1 Introduction**

The audit of the 2011 financial statements, accounts and records had been completed and the audit reports issued to the Ministers concerned. The audit report was a Disclaimer of Opinion and the audit findings including internal control issues are reported below.

#### **5.20.3.2 Financial Statements – 2011**

Finance Instruction 2/2004 issued under Section 117 of the *PFMA* states the prescribed format for the preparation and presentation of the financial statements for public bodies. In contrary to this, the Kimbe General Hospital's financial statements for 2011 were not presented in the prescribed format as required. The audit findings are as follows.

- There were material misstatements due to errors and omissions of both receipts and payments in the Operating Account cashbook which resulted in reconciling differences with the bank balances. In addition, I was unable to verify the accuracy of the bank balance of K168,222 disclosed from the operating account statement of receipts and payments;
- There was no related record available on the Trust Fund Account held by the Hospital and I was unable to confirm and determine the existence of the account; and
- There was no proper assets register maintained to record all fixed assets of the hospital. As a result, several assets purchased worth K46,443 could not be traced to the fixed asset register. In the absence of an appropriate assets register, I was unable to verify the existence and accuracy of all fixed assets owned by the Hospital as at year end.

#### **5.20.3.3 Control Environment**

##### **1. Appropriation and Budget Management**

The Hospital did not exercise effective budgetary control in its expenditure, including unpaid commitments thereby exceeding its budget allocations in excess of K681,797.

##### **2. Revenue and Receivables**

The following observations had been made:

- There were obvious weaknesses noted under the receipting and banking of cash procedures where instances of delays in deposits of at least one day to a month;
- There were numerous official receipts missing from the files where vouching of the revenues collected to source documents was not possible;
- There existed a lack of segregation of duties between receipting, banking and recording of cash receipts; and
- There was strong evidence of misuse and abuse of daily collections from the Hospital fees by certain staff of the Hospital. This abuse was detected from a surprise cash count conducted where a deficiency of K2,502 was discovered.

### 3. Procurement Procedures

A review of procurement procedures and payments revealed the following weaknesses:

- Formal appointment instruments for financial delegates, who have examined, certified and approved claims for payments, and their approved limitations, were not made available for my examination. In the absence of formal appointment instruments, I was unable to confirm the validity of persons who have acted in those positions during the year;
- The Hospital did not maintain a quotation register nor obtained the required three verbal and or written quotations from suppliers to determine the most economical prices of goods and services procured by the Hospital;
- Payments of K5,000 had no appropriate supporting documents while K11,062 paid to the same Doctor respectively for refreshments on two different occasions had no payment vouchers attached for confirmation;
- There was an excessive payment of K76,353 to an auto repairs company on vehicle services and repairs rendered without the required three quotes from different vehicle repair shops for economical prices;
- There were instances of payments related to patients' rations totalling K33,199 not supported with valid goods received reports and internal orders to validate the expenses; and
- In ten instances, payment vouchers relating to various expenditures incurred totalling K73,389 were missing from the files, and therefore confirmation of whether proper procedures were followed was not possible.

### 4. Advances Management

There were no proper advances register and acquittals file maintained to record all advances paid and if any recovery action was exercised on outstanding travelling allowances, including cash and salary advances. Consequently outstanding advances totalling K130,595 could not be verified.

### 5. Asset Management

The Hospital maintained a comprehensive fixed assets register which had a total value of more than K2.2 million. The review of the registers, ledgers and the related records revealed the following:

- The updated assets register provided for my examination lacked complete information such as the dates of purchases, prices, model and serial numbers. The presented assets register was not properly maintained in terms of asset categories hence, identification of assets owned by the Hospital was not possible; and
- There were four Land Cruisers sold as indicated from the assets register that had no relevant details such as the date of disposal and value of the vehicles. A receipt of K5,000 was noted from the register where a doctor had purchased the vehicle through a tender process. However, the relevant meeting minutes of the Provincial Supply and Tenders Board granting approval for the disposal and approved value of the vehicles were not made available for my confirmation.

### 6. Human Resource Management

Review of the payrolls, personal files and related records revealed the following issues:

- Payrolls obtained from the Department of Personal Management (DPM) were incomplete and as such timely reconciliation of payroll was not possible. I had noted that the personal section had not been checking with DPM constantly to

ensure complete payrolls were received;

- Overtime requests from respective Heads of Sections detailing scope of work that required employees to do over time work had not been sighted to confirm payments of K198,259 paid to various employees on some instances. Also, there were instances of overtime forms not duly signed by respective financial delegates;
- The casual staff establishment showed a total of seventy-six on strength while the casual staff ceiling is forty-five. This is an excessive number of casual employees which the hospital paid a total of K658,536 on wages exceeding the allocation of K530,800, resulting in over-expenditure of K127,736;
- There was no proper wages sheets used to prepare wages for the casual employees. In the absence of proper delegated responsibility and job description, wages sheet were not produced, checked and signed off to ensure correct wages were paid to casual staff;
- There were K273,874 and K324,568 paid to nursing officers in December 2010 and January/February 2011 respectively as being paid for second phase back-payment of their 25% shift allowances. There payments however, had neither the details of the calculations nor the documents relating to this pay-out attached to verify the legitimacy of the back payments made; and
- A total of K86,823 relating to payments of overtime for Corporate Services staff that helped during the medical symposium had not been supported with proper overtime calculation sheets to verify the accuracy and legitimacy of the payments incurred.

#### **5.20.3.4 Status of Financial Statements**

At the time of preparing this Report in July 2014, the Kimbe General Hospital has not submitted its financial statements for the years ended 31 December 2012 and 2013 for audit.



## **5.21 WESTERN HIGHLANDS PROVINCE**

### **5.21.1 Introduction**

Western Highlands Provincial Government, Mt Hagen Urban Local-level Government and Mt Hagen General Hospital are audited every year, with or without financial statements. Other LLGs and the Business Arms of the Governments could not be audited due to manpower and financial constraints faced by my office and lack of records and support from the respective Governments.

### **5.21.2 Western Highlands Provincial Government–2013 Accounts**

The interim audit of 2013 accounts and records was completed without financial statements. The control environment findings were common and similar in nature from the years ended 31 December 2011 to 2013; therefore, I am reporting only 2013 findings.

#### **5.21.2.1 Control Environment**

Significant internal control weaknesses were identified in 2011, 2012 and 2013 which are common in nature therefore only 2013 weaknesses only are reported below.

##### **1. Corporate Governance**

The Western Highlands Provincial Government (WHPG) did not have a Corporate Plan covering its own administration, districts and local-level governments with an emphasis on effective and efficient corporate management focused on major key areas.

Minutes of the Provincial Executive Council and Assembly meetings held during the year had not been provided, although requested through a written submission. In the absence of a complete record of all meetings held, issues and resolution with major financial implications passed during the year could not be ascertained.

##### **2. Work of Internal Audit**

An Internal Audit Unit existed within the WHPG Administration and was noted to be fully functioning during the time of audit. A review of its operations resulted in the following observations:

- There was evidence of a number of internal audit reports had been completed but no evidence to suggest that Provincial Management actions had been taken on the recommendations made; and
- An Audit Committee comprising representative from within and outside the Provincial Government, including representatives from the Department of Finance and the AGO was established towards the end of the year in 2013 to assist the Provincial administration in financial and other matters.

##### **3. Appropriation and Budget Management**

The Provincial Government had a total original appropriation of K235,160,500. The original certification and the assembly meeting minutes relating to the passing of the 2013 budget were not provided for audit although requested. Also, the appropriation was revised upwards by K127,227 to K235,287,727. The budget records relating to the revision of K127,227 had not been provided for my verification on its authenticity.

The postings of the original appropriations to the ledgers were inconsistent. The ledger showed as K235,266,900 against the appropriation of K235,160,500 resulted in an unexplained difference of K106,400.

The records on the ground showed a revised appropriation of K235,287,727 against total expenditure of K121,946,347 resulted in under expenditure by K113,214,153. The huge variance may have been due to public servants and teachers' salaries which are administered by the Department of Finance on behalf of the Provincial Government. Failure to gather this information and post it to the appropriate expenditure ledgers would have an adverse effect on the financial report.

Other operational expenses vote item 135 totalling K5,084,570 was intended to fund any operational expenditures that may arise in normal course of operations that are not budgeted for. However, this vote item has been grossly misused where exhausted vote items had been funded thus over commitment of these vote items. This is in breach of budgetary control practice.

#### **4. Revenue and Receivables**

An audit review of revenue management revealed the following matters:

- I was not able to ascertain the effectiveness of the Provincial Revenue Office in terms of revenue collections due to the Provincial Government. There was no system in place to record and account for its internal revenue and the outstanding debtors;
- Records relating to liquor license collections were not provided to me despite written and verbal requests I made. In the absence of the records I could not ascertain whether all liquor outlet licensing and operations had adhered to established rules and regulations and whether all clients had duly paid up the required fees due; and
- The Goods and Services Tax (GST) had been collected by the IRC and the Provincial Government component was remitted to the Provincial Government Bank Account. However, there was no standard procedure where the Provincial Government checks whether the GST remitted to them was the correct amount;

#### **5. Procurement Procedures**

##### Provincial Supply and Tenders Board

The instrument establishing the Provincial Supply and Tenders Board (PSTB), PSTB Meeting Minutes and Resolutions of Meetings convened by the Board during the year and registers maintained to record all tenders invited, quotations received, contracts awarded and certificates of inexpediency issued were not provided for my examination.

Various contractors and suppliers were awarded contracts and services during the year. However, the completion stage could not be properly verified due to the absence of proper status reports, progress reports and completion reports for each of the projects awarded.

It was noted in 2012 that the Provincial Government had incurred expenditure totalling K10,269,241 on capital works and maintenance. I could not ascertain the effectiveness of the Western Highlands PSTB in view of the matters raised above.

### Paid Accounts

Examination of selected payment vouchers to ensure compliance with the financial instructions contained in the Financial Management Manual revealed the following anomalies:

- A register was not maintained to record verbal and written quotations obtained;
- A register was not maintained to register all Requisition for Expenditure (FF3) raised and also commitment numbers were not specified;
- In reference to expenditure amounts exceeding K100,000 but less than K3,000,000 there was no evidence sighted to confirm that submissions with attachment of Official Requisition Form (FF3) and approved Authority to Pre Commit (FF5) were submitted for deliberation by the Provincial Supply and Tenders Board;
- In eleven instances, vouchers relating to payments totalling K45,342,354 were missing and as such I could not determine their validity; and
- Instances of personal moneys spent on official duties and claimed reimbursement from the Provincial Government totalling K265,752 were paid. No prior approval was sought and in most cases lacked valid supporting documents. I noted that it was not normal for the Provincial staff to spend large amounts of personnel monies on behalf of the Provincial Government to claim reimbursements. Also it is not a normal course of business in the Government Sector. These practices may have exposed the Provincial Government to fraud and misappropriation;

Total expenditure of K2,014,187 paid for private vehicle hires during the year revealed the following matters:

- Numerous payments for hire cars were not supported with three written quotations and also no invoices were sighted in many instances;
- Payments were made from wrong vote items and the purposes of these hires were not stated on documents sighted. There was no evidence of any control mechanism in place to ensure that all requests for private hires were submitted to the appropriate administration authority for approval prior to engagements; and
- There were many outstanding payments on vehicle hires indicating credit arrangements with suppliers, however there was no evidence of records such as reconciliation on how much was paid and how much remained outstanding.

### Capital Works and Maintenance

The Provincial Government incurred total expenditure of K96,120,163 on Capital Works and Maintenance programs. The bulk of these expenditures were incurred in the reconstruction of the Kapal Haus provincial headquarters building while minimal funding was spent in maintenance of existing infrastructures such as roads, bridges, buildings and others.

#### *Western Highlands Development Corporation – Kapal Haus*

Funds appropriated for the reconstruction of the Kapal Haus totalling K75,000,000 were paid as grants to the Western Highlands Development Corporation. An interview with the Provincial Administrator had revealed that disbursement reports on the expenditure of these funds and other management reports were not furnished to the Provincial Administration and consequently were not provided to audit. These records include proper contract engagements, approval and endorsement from the Provincial Executive Council, satisfying Provincial Supply and Tenders Board requirements and physical verification performed by the technical division for proof of services.

### *Western Highlands Engineering Management Ltd*

The Western Highlands Engineering Management Ltd (WHEML) was established for the purpose of managing the funds appropriated for the capital works programs of the Western Highlands Provincial Government. A total sum of K13,958,699 was released to the WHEML operating account during the year.

WHEML books of accounts and records, such as bank records, project files, contract documents and disbursement reports, were not made available to audit although requested. An interview with the Provincial Administrator indicated there appeared to be very little correspondence between the Provincial Administration and WHEML. In this circumstance the Provincial Government seem to have lost control on the financial and operational management of its agency. I may in future consider the audits of the accounts of the entities mentioned above

#### **6. Cash Management**

Examination of cashbooks, bank accounts and bank reconciliations statements with the related records revealed that:

- Bank Reconciliation Statements for the Grant and the Internal Revenue Accounts revealed a number of significant reconciling items totalling K18, 869, 643 that related to previous as well as the current years that had not been cleared as at 31 December 2013. The outstanding reconciliation items should be identified and cleared promptly in order to maintain a reliable cashbook balance at any given point in time. Bank reconciliations not promptly reconciled poses the risk of fraudulent activities and distorts the cashbook balance.

#### **7. Asset Management**

An Asset Register appears to be non-existent although it was said to be maintained in the computer which was the same response from the Provincial Treasury staff in the 2012 audit. During the year the Western Highlands Provincial Government purchased assets including motor vehicles totalling K1,952,347. A motor vehicle register was not maintained in terms of purchase and disposal of vehicles by the Provincial Government. In the absence of the assets register, audit could not verify the completeness and existence of these assets.

#### **8. Trust Account Management**

PGAS had revealed seven trust accounts. Four under the provincial and three under the national codes and the accumulated overdrawn balance of K2,372,544 was disclosed. The accounts and records including the trust instruments were not provided for my examination although requested.

#### **9. Human Resource Management**

Review on the management of personnel and examination of salaries and wages payments made during the year was not possible as my request with two formal letters and several verbal requests to the Human Resource Advisor to provide records was not attended to.

#### **5.21.2.3 Status of Financial Statements**

The financial statements for the year 2013 had not been submitted when this report was done. The financial statements for 2011 and 2012 were submitted, audits completed. The

audit report of each year was done and submitted to the ministers and bodies required by the *Organic Law*.

### 5.21.3 Western Highlands Provincial Government –2011 and 2012 Accounts

The 2011 and 2012 audits with financial statements had been completed and the audit opinion reports were issued to the Ministers concerned and the bodies required under section 113 of *Organic Law*. The two years audit reports were disclaimed with common similar issues for both years therefore; only 2012 audit findings are reproduced below.

#### 5.21.3.1 Financial Statements – 2012

##### Presentation of Financial Statements

The Provincial Governor's and the Provincial Administrator's statements relating to the budget performance during the year 2012 were not included in the financial statements;

##### Cash Balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of the Western Highlands Provincial Government as at 31 December 2012 due to the following reasons:

- In Note 3 to the accounts, the opening revenue fund figure of (K9, 246, 002) could not be correct in view of discrepancies I reported in 2010 which showed a difference of (K3, 875, 866) between the closing and the opening balances still carried forward and has not been rectified;
- The surplus of K5,519,652 disclosed in Statement 'B' and in Note 3 to the accounts could not be confirmed in view of Statements 'J' and 'K' showing different figures;
- The Trust Fund balance totalling K1,002,175 could not be confirmed to the underlying records such as trust instruments, ledgers and the bank documents as these were not provided for my examination; and
- The accumulated fund balance as represented by bank and investments balance of (K2,724,177) could not be confirmed since the bank reconciliations for the accounts disclosed in Statement 'A' were not provided for my examination. Also substantial reconciling items of revenue and expenditure appearing in the bank reconciliation statements were not adjusted in the Provincial Government books accordingly. Notes 6.1 to 6.5 to the accounts confirmed the findings reported.

##### Receipts and Payments

Statement 'B' presented total revenue of K68,774,744 and expenditure of K63,255,092 resulting in surplus revenue over expenditure of K5,519,652. I am unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the excess of revenue as at 31 December 2012 due to the TMS 55 Report not provided for me to confirm the public servants and teachers' salaries actual grant received and expended. The budgeted figure of K79,478,167 was disclosed in Statement 'B' but were not recorded in the revenue ledgers and not disclosed in Statements 'J' and 'K'.

##### Investments

Statements 'E' and 'F' presented did not indicate short and long-term investments (if any) held by the Provincial Government as at 31 December 2012. No investment registers, share certificates and other related records were provided for my examination. However, I know that the Provincial Government Business Arms such as the Melpa

Properties Limited and Western Highlands Development Corporation have been incorporated and have been operating but no information was provided for my audit examination. This matter has been outstanding as noted previously and nothing has been done to address this issue.

### **Assets**

Appendix 4 did not disclose information about assets purchased and owned by the Provincial Government as at 31 December 2012. The Management Letter issued to the Provincial Administrator which has not been replied, reported that assets worth of K1,344,446 purchased in 2012 were not fully recorded in the register.

Good asset management was not practiced and in the absence of a complete assets register and annual stocktakes, I am unable to confirm the completeness and value of all assets owned by the Western Highlands Provincial Government as at 31 December 2012. This included motor vehicles as there was also lack of control over the Provincial Government Fleet of Vehicles.

### **Advances**

Appendix 6 did not disclose a cumulative figure on unacquitted advances as at 31 December 2012. My examination revealed a total of K1,898,048 was taken but could not determine how much was acquitted. As such, I could not confirm the correct amount of unacquitted advances due to the lack of proper advance management.

### **Disclaimer of Audit Opinion**

In my opinion, because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and accordingly, I was unable to express an opinion on the financial statements of the Western Highlands Provincial Government for the year ended 31 December 2012.

## **5.21.4 Mt Hagen Urban Local-level Government**

### **5.21.4.1 Introduction**

The interim audit of the Mt Hagen Urban Local-level Government (ULLG) 2011 accounts was completed. The Audit Management Letter issued to the ULLG was not responded to at the time of preparing and finalising this Report.

The Financial Statements of the ULLG for the year ended 31 December 2011 was not provided to my Office for review. As such, I was unable to ascertain the extent of the disclosure of the financial statements. My report contained a number of issues relating to the control environment weaknesses which are summarised in the paragraphs below:

### **5.21.4.2 Control Environment**

#### **1. Corporate Governance**

The Mt Hagen ULLG did not develop a Corporate Plan and other Associated Operational Plans with set objectives and strategies to support developments in financial, human resource and asset management needs.

#### **2. Appropriation and Budget Management**

*Mount Hagen ULLG Appropriation Act of 2011* was passed by the ULLG Assembly on 4 January 2011 appropriating the sum of K3,436,700 for the financial year commencing 1

January 2011. However, due to the Appropriation Act not signed by the Clerk of the ULLG Assembly and the Town Mayor, I am therefore, unable to ascertain the validity of the 2011 Appropriation Act of the Mount Hagen ULLG.

### **3. Revenue and Receivables**

Revenue Ledgers were not maintained by the ULLG during the year under review. As such, I was unable to ascertain the total actual revenue received by the ULLG during 2011 against its estimate of K2,829,000.

### **4. Procurement Procedures**

During the year under review, I noted a payment of K24,680 paid to the former ULLG Manager, his final entitlement. In 2010, a sum of K92,340 was also made as his final entitlement. In the absence of the Payroll records and Employee Personal Files, I am unable to verify the accuracy of these payments.

A total of K76,897 was spent on fuel during the year. There was no control and monitoring measures in place to ensure that fuel advances paid to fuel distributors or suppliers were reconciled and acquitted. As such, I was unable to ensure if fuel monies paid were spent on fuel consumed only by ULLG vehicles for the purpose of the ULLG and not on other unauthorised vehicles.

### **5. Cash Management**

Examination of cashbooks, bank accounts and bank reconciliations statements with the related records revealed the following findings:

- Reconciling items totalling K182,759 had not been reconciled at the year-end;
- No bank statements were provided, as such the December bank balance as reflected in the bank reconciliation could not be verified and confirmed; and
- I could not confirm the status of the unpresented cheques totalling K90,184 since no cheque reconciliation listing was produced as requested.

The Advances Register was not maintained during the year. As a result, I was unable to ascertain if the total advances paid amounting to K47,955 as per the expenditure ledgers were recorded in the advances register and acquittals made.

### **6. Asset Management**

There is no Assets Register being maintained by the ULLG to record details of all assets of the ULLG. Assets purchased during the year totalled K804,045. Consequently, I was unable to ascertain the existence, custody, condition and total value of assets owned by the ULLG as at 31 December 2011. Furthermore, there was no physical stocktake undertaken during the year.

### **7. Human Resource Management**

A total sum of K950,262 was paid during the year as salaries and wages. No Payroll Records for the year and Employee Personal Files were provided to me for my audit. Consequently, I was unable to ascertain if salaries and wages payments made during the year were genuine and accurate.

#### **5.21.4.3 Status of Financial Statements**

The financial statements for 2011, 2012 and 2013 have not been received at the time of writing this report in July 2014.

## **5.21.5 Mt Hagen General Hospital**

### **5.21.5.1 Introduction**

The audit of 2011 and 2012 financial statements, accounts and records had been completed and the Audit Reports issued to the Ministers concerned. The 2011 audit was a Disclaimer Opinion and the 2012 audit was a 'Qualified Opinion'. As the internal control issues were common throughout therefore, only the 2012 report is reproduced as follows.

### **5.21.5.2 Financial Statements– 2012**

Finance Instructions 2/2004 issued under Section 117 of the *PFMA* state the prescribed format for the preparation and presentation of the financial statements for public bodies. Western Highlands Provincial Health Authority Financial Statements for the year ended 31 December 2012 complied with the requirements of Finance Instruction 2/2004.

The disclosure errors noted in the statements presented include:

- The Consolidated Accumulated Fund Balance of K19,749,157 reported in this Statement could not be relied upon due to the unadjusted errors brought forward from previous years; and
- The Donation Receipts of K268,091 and Other Income Receipt of K4,047 as stated in the Statement of Receipts and Payments for WHPHA Operating Account were not provided with the appropriate supporting documents. .

### **5.21.5.3 Control Environment**

There were internal control weaknesses identified in the accounts, records and processes as follows:

#### **1. Corporate Governance**

An unsigned copy of the Corporate Plan, 2012-2015 was produced hence; I was unable to determine whether management had conducted annual periodic reviews to assess and evaluate the progress to achieve its goals and meet target objectives based on each of the Key Result Areas.

The Board of Governance meeting minutes' number: two and three for the year under review were not signed off by the Chairman of the Board and the clerk to present as true meeting minutes.

#### **2. Work of Internal Audit**

The Hospital did not have an internal audit unit. No internal audit report was provided for me to see whether internal auditors of the Department of Health conducted routine audits.

#### **3. Appropriation and Budget Management**

There were no commitment control ledgers maintained by the Provincial Health Authority and as a result, eight budgeted vote items were overspent by K701,300 and six budgeted vote items were under spent by K712,500. Whilst K370,100 was spent on three unbudgeted items without any budgeted supporting documentation. Consequently there were neither monthly nor quarterly budget reviews undertaken.



#### **4. Revenue and Receivables**

No major issues were noted hence all records and documentations were provided and examined as requested. The audit inspection ascertained great improvements in terms of revenue collecting, banking, receipting, as well as record keeping and documentation. As such I would like to commend such great effort and encourage management to continue this good work.

#### **5. Procurement Procedures**

Examination of procurements and paid accounts revealed the following findings:

- Claims paid totalling K74,810 lacked appropriate supporting documents and as such I was unable to verify the validity of these payments;
- A total amount of K2,459,663 was paid to two contractors to carry out mainly staff house maintenance. There was no PSTB approved official documentation provided, such as the meeting minute's resolutions, that approved contractor;
- Payments were made to a contractor totalling K1,909,045 for the second stage of Mt Hagen General Hospital Construction. Relevant documents such as the signed contract agreement and PSTB approval were not sighted for this payment; and
- Contractual documents and PSTB approval regarding a payment of K691,676 to UECCP Ltd for fencing work carried out around the Hospital was not provided. Consequently I was not able to confirm the validity of this payment.

#### **6. Cash Management**

My review of the monthly bank reconciliation statements discovered that some of the outstanding cheques as stated in the MYOB generated reconciliation statements were actually cancelled and stale cheques but were still recognised by the system as cheques yet to be presented. Consequently this would have misstated the actual closing balances of the cash books and revenue and expenditure ledgers with consequent effects in the disclosure of the financial statements.

#### **7. Advance Management**

The Advances Register disclosed total unacquitted advances as K136,979. However due to inconsistencies and incompleteness in the maintenance of the register, I was unable to establish the total amount of outstanding advances as at 31 December 2012

#### **8. Asset Management**

The Fixed Asset Register was not properly maintained and lacked detailed information of assets recorded. Assets purchased during the year totalling K377,046 were not recorded to the register and there was no evidence to indicate that periodic stocktakes were undertaken during the year.

#### **9. Human Resource Management**

Important information and records such as the payroll numbers: 1 – 26 for the financial year and the leave due registers were not provided. Selected payment vouchers noted leave fare entitlements totalling K52,906 were processed and paid without appropriate supporting concession documentations such as the birth certificates for defendants claimed or school concession cards to confirm the correctness.

It was reported that certain casual staff that had joined the Hospital more than 30 years

ago were still on casual and had not been confirmed and given permanent positions.

**5.21.6 Status of Financial Statements**

Financial Statements for 2013 are yet to be received and the audit is yet to be done.

## 6. LEGAL FRAMEWORKS

### 6.1 Organic Law on Provincial Governments and Local-level Governments

Sections 102 and 103 of the *Organic Law* require Provincial Governments and Local-level Governments to keep proper accounts and records of their transactions and affairs, and to set up an internal control system and internal audit unit to ensure adequate financial control.

In addition, Section 114 of the *Organic Law* requires each Provincial Government and Local-level Government to submit to the Minister for Finance and the Minister for Provincial and Local-level Government Affairs, a full statement on the financial position and affairs of the Province or Local-level Government for each fiscal year.

Section 40(d) of the *Organic Law* provides that the law making powers of the Provincial and Local-level Governments are subject to the National Law but only as the national interest so requires.

The legislation clearly states that an Act of Parliament shall prevail over any law made by the Provincial or the Local-level Government Legislatures. In view of this, the *PFMA* prevails over the Provincial Legislations in respect of financial management.

### 6.2 Provincial Governments and Local-level Governments

Section 113 subsection 4(c) of the *Organic Law* extends the functions of the Auditor-General to inspect and audit the affairs and accounts of the Provincial and Local-level Governments.

There are 21 Provincial and 321 Local-level Governments under the Auditor-General's mandate. There is a significant delay experienced in reporting the result of these audits. Details of the causes of this delay are outlined under paragraph 1.2 of this Report. Given the lack of resources, and other constraints, my Office will continue to concentrate its efforts on the core audits being that of Provincial Governments, Hospital Boards, Urban LLGs and a sizable number of business arms.

The 21 Provincial Governments received development and recurrent funds (appropriations) in 2013 of approximately K2,345.6 million. This represented 18% of the total State's budgeted expenditure for 2013. Considering the significance of the amount, these audits have remained my priority in addressing the audit arrears situation.

### 6.3 Hospital Boards

Hospital Boards within the country are established under the *Public Hospital Act*. This Act provides that the *PFMA* is applicable to the Boards on matters regarding accounting, financial management and reporting. That Act also requires the audit provisions contained in the *Audit Act* to apply to the Hospital Boards.

In accordance with Part 3, Section 8 of the *Audit Act*, I perform annual audits of the accounts and records and financial transactions of Hospital Boards. I am also required to report to the Minister for Finance and the Minister for Health on the results of those audits.

The audits are performed so that I can obtain reasonable assurance as to whether the financial statements are free of material misstatement and amongst other things, whether the statements are prepared in a form approved by the Minister for Finance. Hospital Boards, being public bodies, are currently instructed to prepare their statements in accordance with the Finance Instruction 02/2004: Financial Statement Format, Trading and Non-Trading Public Bodies.

These Instructions issued under Section 117 of the *PFMA* had been signed and approved by the then Secretary for Finance. There is a “glitch” in the legislation, namely, Section 63(3) of the *PFMA* which requires that these financial statements are presented in a form approved by the Minister.

#### 6.4 Business Arms and Subsidiary Corporations

The *Audit Act* extends the functions of the Auditor-General to include the audit of business arms and subsidiary corporations of Provincial Governments. These reporting entities report under Finance Instruction 2/2004: Financial Statement Format for Trading Public Bodies. The *PFMA* Section 62(2) requires trading public bodies in regards to their accounts and records to observe and comply with the accounting principles generally accepted and applied in commercial practice. This includes the adoption of an accrual based accounting and applying the International Accounting Standards.

As detailed under paragraph 3.4 I have significant difficulties in identifying the correct number of business arms and their operations. Details of these business arms and their subsidiary corporations and companies, could not be fully established due to lack of adequate information forthcoming from the Provincial Governments or due to their failure to maintain proper investment records and registers. My Office was unable to determine whether they were still in operation, defunct, or liquidated.

#### 6.5 Provincial Authorities

Provincial Authorities are created by an Act of Parliament. The purpose of establishing these authorities is to develop infrastructure and to stimulate business activity in the respective provinces. Some of these authorities are directly involved in commercial activities as well. The majority of these authorities are required to report under the cash basis of accounting applying the standard *Financial Reporting under the Cash Basis of Accounting* issued by the International Federation of Accountants.

The audits of the Provincial Authorities are undertaken when the financial statements are received and when audit fees are remitted to the Office.

#### 6.6 Other Audits

My responsibility also includes the audit of Special Purpose Funds and Trusts established by Provincial Governments. The audit of these Funds and Trusts is organised in a similar manner as the audit of business arms. Management of these funds has failed to furnish financial statements on a timely basis and, as such, I was unable to carry out the respective audits on a timely basis.

#### 6.7 Dispensation of Audits

Part 5 Section 16(6) of the *Audit Act* states:

*“The Auditor-General may, in his discretion, dispense with the whole or any part of the detailed inspection and audit of any accounts, moneys and property referred to in Subsection (2).”*

Subsection 2 relates to audits of Provincial Government, Local-level Government, subsidiary corporations of a Provincial Government, a body established by a provincial law, Provincial Government Association and Provincial Government-owned company or public project.

Similarly, Part 1, Section 6(1a) of the *Audit Act* allows the Auditor-General to dispense with all or any part of the detailed audit related to other entities.

It is my opinion that the performance of those audits will not identify any new information that will benefit the Parliament, the Provincial and Local-level Government or the wider public. In the cases of some of the more recent audits where no financial statements have been prepared and submitted to me for audit, my officers have conducted audit of controls and reported on the results of those audits to the auditee management. The results of those audits, grouped by Province, are reported in Chapter 5.

It should be noted that I have not undertaken any audit of financial statements of Rural LLGs due to the following reasons:

- Expenditure mainly relates to payment of salaries; and
- Lack of resources to undertake these audits.

The Provincial Government, Hospital and Urban Local-level Governments' problem audits are detailed in the table below which may be dispensed after further consultation with the authorities concerned.

#### **Listing of Audits of Financial Statements to be dispensed**

<b>Entity</b>	<b>Year for which Financial Statements were due</b>	<b>Explanatory Notes</b>
Gulf Provincial Government	2008	FS not prepared. Control audits done
Gulf Provincial Government	2009	FS not prepared. Control audits done
Kerema Urban LLG	2008	FS not prepared. Control audits done
Kerema Urban LLG	2009	FS not prepared. Control audits done
Buka Urban LLG	2008	FS not prepared. Control audits done
Motu Koitabu LLG	2008	FS not prepared. Control audits done
Mendi Urban LLG	2005	FS not prepared
Mendi Urban LLG	2006	FS not prepared
Mendi Urban LLG	2007	FS not prepared
Mendi Urban LLG	2008	FS not prepared
Lorengau Hospital	2008	FS not prepared. Control audit done

## 7. STATUS OF FINANCIAL STATEMENTS

In conducting my audit, I cannot be 100 percent certain that it will reveal all errors in the financial statements that, individually or in total, may be material. The size and complexity of the entity's operations, as well as cost considerations, make it impractical for me to examine all or even most of the individual expenditure transactions entered into during the year. It is also impractical for me to examine all or most of the individual transactions pertaining to the trust funds.

What I can do is verify samples of transactions and account balances, determine whether significant financial controls within the entity are working and can be relied on to produce complete and accurate data, and carry out other procedures – such as confirming year-end balances with third parties and performing analysis – to identify anomalies in the reported data.

What this comes down to is exercising professional judgment about how much auditing is required to provide reasonable assurance to users of the statements that they can rely on the reported results and not be misled.

An unqualified audit report is provided when the financial statements, in all material respects, give a true and fair view of the matters required by the *PFMA* and Finance Instructions issued under this Act.

Qualified audit reports are issued when the financial statements do not present a true and fair view of the entity's financial position, nor of the results of its operations and its cashflows, thereby reducing the readers' ability to analyse, interpret and compare financial statements.

### 7.1 Provincial Government

**Table 1 – Status of Audit Reports – Provincial Government**

#	Provincial Government	AUDIT OPINION REPORTS 2011-2013			
		Issued	In progress	Audit yet to commence	Financial Statements not submitted
1	Autonomous Region of Bougainville	1	1	-	2012-2013
2	Central	2	-	-	2013
3	East New Britain	3	-	-	-
4	East Sepik	2	-	-	2013
5	Eastern Highlands	2	1	-	2013
6	Enga	2	1	-	2013
7	Gulf	-	2	-	2011-2013
8	Hela	-	-	-	2011-2013
9	Jiwaka	-	-	-	2011-2013
10	Madang	3	-	-	-
11	Manus	3	-	-	-
12	Milne Bay	2	1	-	2013
13	Morobe	3	-	-	-
14	New Ireland	3	-	-	-
15	Oro	3	-	-	-
16	Sandaun	2	1	-	2013
17	Simbu	3			

#	Provincial Government	AUDIT OPINION REPORTS 2011-2013			
		Issued	In progress	Audit yet to commence	Financial Statements not submitted
18	Southern Highlands	2	1		2013
19	West New Britain	2			2013
20	Western	2			2013
21	Western Highlands	2	1		2013
	<b>TOTAL</b>	<b>42</b>	<b>10</b>	<b>-</b>	<b>21</b>

## 7.2 Local-level Government

Table 2- Local-level Governments

#	PROVINCE	LLGs		TOTAL LLGs
		Urban	Rural	
1	Bougainville	1	-	1
2	Central	4	13	14
3	East New Britain	2	16	18
4	East Sepik	2	25	27
5	Eastern Highlands	2	22	24
6	Enga	2	15	17
7	Gulf	1	9	10
8	Hela	1	11	12
9	Jiwaka	-	6	7
10	Madang	1	18	19
11	Manus	1	11	12
12	Milne Bay	1	15	16
13	Morobe	3	30	33
14	New Ireland	1	9	10
15	Oro	1	8	9
16	Sandaun	2	16	18
17	Simbu	2	18	20
18	Southern Highlands	2	18	20
19	West New Britain	1	11	12
20	Western	3	11	14
21	Western Highlands	1	8	9
	<b>TOTAL</b>	<b>31</b>	<b>290</b>	<b>321</b>

Table 3- Status of Audit Reports – Local-level Government

#	Urban Local-level Government	AUDIT OPINION REPORTS 2011to 2013			
		Issued	In progress	Audit yet to commence	Financial Statements not submitted
1	Alotau	2	1		2013
2	Daru	-	2	-	2011-2013
3	Kiunga	-	-	-	2011-2013
4	AitapeLumi	-	-	-	2011-2013
5	Balimo	-	-	-	2011-2013
6	Buka	-	-	-	2011-2013

#	Urban Local-level Government	AUDIT OPINION REPORTS 2011to 2013			
		Issued	In progress	Audit yet to commence	Financial Statements not submitted
7	Finschaffen	-	-	-	2011-2013
8	Goroka	-	-	-	2011-2013-
9	Hagen	-	-	-	2011-2013
10	Ialibu	-	-	-	2011-2013
11	Kainantu	-	-	-	2011-2013
12	Kavieng	-	-	-	2011-2013
13	Kerema	-	-	-	2011-2013
14	Kerowagi	-	-	-	2011-2013
15	Kimbe	1	-	-	2012-2013
16	Kundiawa	-	-	-	2011-2013
17	Lae	1	-	-	2012-2013
18	Lorengau	3	-	-	
19	Madang	-	2	-	2011-2013
20	Maprik	-	-	-	-
21	Mendi	-	-	-	2011-2013
22	Motu Koitabu	-	-	-	2011-2013
23	Popondetta	-	-	-	2011-2013
24	Porgera	-	-	-	2011-2013
25	Tari	-	-	-	2011-2013
26	Rabaul	1	-	-	-2012-2013
27	Kokopo/Vunamami	1	-	-	2012-2013
28	Vanimo	1	-	-	2012-2013
29	Wabag	-	1	-	2011-2013
30	Wau/Bulolo	-	-	-	2011-2013
31	Wewak	-	-	-	2011-2013
	<b>TOTAL</b>	<b>10</b>	<b>6</b>	<b>-</b>	<b>81</b>

### 7.3 Hospital Boards

Table 4 – Status of Audit Reports– Hospital Boards

#	Hospital Board	AUDIT OPINION REPORTS 2011to 2013			
		Issued	In progress	Audit yet to commence	Financial Statements not submitted
1	Angau	-	-	-	2011-2013
2	Boram	1	-	-	2012-2013
3	Buka	-	-	-	2011-2013
4	Daru	-	-	-	2011-2013
5	Goroka	1	-	-	2012-2013
6	Hagen	2	-	-	2013
7	Kavieng	-	-	-	-
8	Kerema	-	-	-	-
9	Kimbe	1	-	-	2012-2013
10	Kundiawa	2	1	-	2013
11	Lorengau	2	-	-	2013
12	Mendi	2	1	-	2013



#	Hospital Board	AUDIT OPINION REPORTS 2011to 2013			
		Issued	In progress	Audit yet to commence	Financial Statements not submitted
13	Milne Bay	2	1	-	2013
14	Modilon	1	2	-	2011, 2013
15	Nonga	1	-	-	2012-2013
16	POM Hospital	-	-	-	2011-2013-
17	Popondetta	-	-	-	-
18	Vanimo	2	-	-	2013
19	Wabag	1	2	-	-
	<b>TOTAL</b>	<b>18</b>	<b>7</b>	<b>-</b>	<b>27</b>

#### 7.4 Business Arms

**Table 5 –Provincial Governments Business Arms and Subsidiary Companies**

#	Province	Entity	Remarks
1	ABG	North Solomon Marine Corporation	Deregistered on 12/09/96.
2	ABG	North Solomon Plantation Development Corporation	Deregistered on 12/09/96.
3	ABG	South Bougainville Engineering Ltd	1997-2004 F/S received. Balance audit fees awaited.
4	Central	Central Provincial Development Corporation – formerly Central Province Investment Ltd	No F/S since 1991.
5	Central	Central Province Investments Ltd	No F/S since 2005. Deregistered on 30/05/08.
6	Central	Koiari Holdings Ltd	No F/S since 1995.
7	East Sepik	East Sepik Development Corporation	1993-2001 F/S received. Audit fees awaited.
8	Eastern Highlands	Akogere Estates Ltd	Refer Table 6
9	Eastern Highlands	Al's Auto Repair Ltd	Refer Table 6
10	Eastern Highlands	Nokondi Group of Companies	Refer Table 6
11	Eastern Highlands	Nokondi Investments Ltd	Refer Table 6
12	East New Britain	Barakopo Plantation Development Corporation/Barakopo Ltd	1995-1998 audited by private auditors. 1999-2003 F/S received and audit fees awaited.
13	East New Britain	East New Britain Development Corporation and Subsidiaries	Audited by private auditors to 2010.
14	East New Britain	Islands Development Bureau Inc.	1995-1998 audited by private auditors. 1999-2001 F/S received and

#	Province	Entity	Remarks
			audit fees awaited.
15	East New Britain	Pomio Development Corporation	1995-1997 F/S received. Audit fees awaited.
16	East New Britain	South Coast Shipping Ltd	1993-2000 M/L responses, signed F/S and audit fees awaited.
18	Enga	Enga Engineering Ltd (Conakry Pty Ltd)	No F/S since 1995. Deregistered on 02/06/2002.
19	Fly River	Fly River Doctor Services Ltd	No F/S since 1996.
20	Fly River	Wyben Hotel Ltd	1995-2006 audited by authorised auditor.
21	Gulf	Gulf Papua Fisheries Ltd – Subsidiary of GITF	1997-2000 F/S received. Audit fees awaited.
22	Gulf	Southern Star Ltd – Subsidiary of GITF	1997-2000 F/S received. Audit fees awaited.
23	Madang	Madang Development Corporation	1995/1998 M/L responses, signed F/S awaited.
24	Madang	Madang Slipway Ltd – Formerly BinnenMarine Services Ltd	De-registered from IPA but still in operation.
25	Manus	Kei BeseuKampani Ltd	2000-2006 audited by private auditors.
26	Manus	Lorengau Hotel Ltd	Audited by private auditors to 2010.
27	Manus	Manus Fishing Corporation	No F/S since 2004.
28	Manus	Manus Marine Resources Ltd	No F/S since 1995. Deregistered on 03/06/2002.
29	Milne Bay	Milne Bay Properties Ltd	Audited by private auditors to 2010.
30	Morobe	Kungie Holdings Ltd	1999-2006 F/S received.
31	Morobe	Morobe Development Corporation Ltd	1999 F/S received.
32	Morobe	Morobe Development Engineering Services Ltd	1999 F/s received.
33	Morobe	Morobe Farms (Wawin) Ltd	1999 F/S received.
34	Morobe	Morobe Food Corporation Ltd	No F/S since 1999. Deregistered on 03/06/2002.
35	Morobe	Morobe Food Processing Ltd	No F/S since 1999. Deregistered on 03/06/2002.
36	Morobe	Morobe Printing Ltd	No F/S since inception.
37	Morobe	Niugini Produce Marketing Ltd	1999 F/S received.
38	Morobe	Umboi Timer Investment Ltd	No F/S since 1999.
39	Morobe	Yalu Plantation Ltd	1999 F/S received.
40	Morobe	YKDC Investment Ltd	No F/S since 1999. Deregistered on 03/06/2002.
41	New Ireland	Malagan Lodge Resort Ltd (NIDC)	1997-2004 F/S received. Audit fees awaited.
42	New Ireland	New Ireland	1997-2004 F/S received.

#	Province	Entity	Remarks
		Development Corporation (NIDC)	
43	New Ireland	New Ireland Shipping Ltd. (NIDC)	1999-2002 F/S received. Audit fees awaited. Deregistered 21/04/2006.
44	New Ireland	Nimamar Investment Ltd	1999-2001 audited by private auditors. 2002 signed F/S awaited. 2003-2004 audit fees awaited.
45	New Ireland	Public Works New Ireland Ltd	No F/S since 2008.
46	New Ireland	SentrolNiuAilan Development corporation and subsidiaries	No F/S since 1999.
47	Sandaun	Sandaun Development Corporation	Deregistered on 11/03/1996.
48	Simbu	Simbu Holdings	No F/S since 1995.
49	Western Highlands	Melpa Properties Ltd	1997-2001 signed F/S awaited.
50	Western Highlands	Peninsula Shipping Lines (PNG) Ltd	Refer Table 6
51	Western Highlands	Petrohaul Ltd	Refer Table 6
52	Western Highlands	Vegmark Ltd	Refer Table 6
53	Western Highlands	WampNga Holdings Ltd (Group of Companies)	Refer Table 6
54	Western Highlands	Western Highlands Development Corporation	No F/S since 1995.
55	West New Britain	Cape Hollman Corporation	No F/S since 1998. Dissolved on 28/08/2007.
56	West New Britain	Kimbe Enterprises Ltd	No F/S since 1998.
57	West New Britain	Kimbe Frozen Foods & Delicatessen Ltd	Expired 18.9.1980 so consider removing from this table.
58	West New Britain	West Farm Resources Ltd	No F/S since 2002.
59	West New Britain	West New Britain Development Corporation	No FS since the last audit of 2004.
60	West New Britain	WNB Building Supplies Ltd	No F/S since 1998.

**Table 6 – Status of Audit Reports–Business Arms& Subsidiary Corporations**

#	Business Arm	AUDIT OPINION REPORTS 2011 to 2013			
		Issued	In progress	Audit yet to commence	Financial Statements not submitted
1	Akogere Estates Limited	1	-	-	2010-2013
2	Nokondi Investments	1	-	-	2010-2013
3	A1 Auto Parts	1	-	-	2010-2013
4	Eastern Highlands Property Developers Ltd	1	-	-	2010-2013
5	WampNga Holdings	-	1	-	2008-2013
6	Petrohaul Limited	-	1	-	2008-2013
7	Vegmark Limited	-	1	-	2008-2013
8	Peninsula Shipping Limited	-	1	-	2008-2013
	<b>TOTAL</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>40</b>

## 7.5 Provincial Authorities

**Table 7- Provincial Authorities**

#	Province	Provincial Authorities	Status
1	ABG	Bougainville Restoration and Development Authority	No F/S since 2008.
2	Central	Koiari Development Authority	No F/S since 1993.
3	Central	Koiari Rural LLG Special Purpose Authority	No F/S since 2004.
4	Central	Central Province Transport Authority	Audited by me. Responses to M/L for 2007-2009 awaited. 2010 F/S received. Refer to Table 8.
5	East New Britain	Gazelle Restoration Authority	Audited by me up to 2011. Report issued. Refer to Table 8.
6	Enga	Porgera LLG Special Purpose Authority (Porgera Development Authority)	Audited by me up to 2009. M/L to be issued. Refer to Table 8.
7	Enga	Enga Construction Authority	No F/S since 1999.
8	Manus	Manus Shipping Authority	No F/S since 1994.
9	New Ireland	Nimamar Development Authority	No FS since 2005
10	New Ireland	Nimamar Rural LLG Special Purpose Authority	2004-2006 F/S submitted. No F/S since 2006.
11	Oro	Oro Fisheries Authority	No F/S since 1990.
12	Southern Highlands	Kutubu Development Authority	No F/S since 1996.

**Table 8- Status of Audits – Provincial Authorities –Do-ables**

#	Business Arm	AUDIT OPINION REPORTS 2011 to 2013			
		Issued	In progress	Audit yet to commence	Financial Statements not submitted
1	Central Province Transport Authority	-	3	-	2010-2013
2	Gazelle Restoration Authority	2	-	-	2013
3	Pogera Development Authority	-	3	-	2012-2013
	<b>TOTAL</b>	<b>2</b>	<b>6</b>	<b>-</b>	<b>7</b>

## 7.6 Trusts and Funds

**Table 9– Provincial Government -Trusts and Funds**

#	Province	Trusts/Funds	Status
1	Enga	Enga Mineral Revenue Stabilisation fund	No F/S since 1993.
2	Enga	Enga Children's Fund	Refer Table 10
3	Gulf	Gulf Investment Trust Fund (GITF)	No F/S since 2004.
4	Western Highlands	Western Highlands Sports Stadium Trust	No F/S since 1995.
5	West New Britain	NBPOL Trusts 1&2	

**Table 10- Status of Audits – Trusts and Funds – Do-ables**

#	Business Arm	AUDIT OPINION REPORTS 2011 to 2013			
		Issued	In progress	Audit yet to commence	Financial Statements not submitted
1	Enga Children's Fund Trustee Ltd	1	2	-	-
2	NBPOL Trusts 1&2	1	1	-	2013
	<b>TOTAL</b>	<b>2</b>	<b>3</b>	<b>-</b>	<b>1</b>