

Part 4  
Report of the Auditor-General 2013

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25 July 2014

The Honourable Theodore Zurenuoc, MP The Speaker of National Parliament Parliament House  
WAIGANI  
National Capital District

Dear Sir,

In accordance with the provisions of Section 214 of the Constitution of the Independent State of Papua New Guinea, I forward herewith a copy of my report signed on 25th July 2014 upon the inspection and audit of the financial statements of the Public Bodies and their subsidiaries and National Government owned companies for tabling in the National Parliament. This Report (Part IV) also contains information on companies in which the Government does not hold majority interest. Section D of this Part of the Report contains information on the status of certain entities which

have ceased operations and those entities audits of which have been in arrears. Further, the status of nine Project Audits are summarised and the details are covered in my Special Project Audits Report to the Parliament.

Yours sincerely,

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Auditor-General

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## GENERAL

### A. FOREWORD

My Annual Report to the National Parliament for the 2013 financial year is presented in four Parts. Part I deals with the Public Accounts of Papua New Guinea (PNG). Part II deals with National Government Departments and the Provincial Treasury Offices, whilst Part III deals with the audit of the Provincial Governments and Local-level Governments.

Part IV (this Part) of my Report deals with Public Bodies and their Subsidiaries, Government Owned Companies and National Government's shareholdings in Other Companies.

This Report is divided into four sections:

- \* Section A deals with Public Bodies and their subsidiaries;
- \* Section B deals with National Government owned companies;
- \* Section C deals with the Companies in which the National Government has shareholdings; and
- \* Section D is an additional section which provides details of entities that have ceased operating and those other entities the audits of which have been in arrears due to non- submission of financial statements.

The audit findings contained in Sections A and B of this Report have been reported to Management of the respective entities and to the responsible Ministers.

### B. AUTHORITY TO AUDIT

#### B.1 Constitution

Under Section 214(2) of the Constitution of the Independent State of Papua New Guinea, I am required to inspect and audit all bodies set up by Acts of the Parliament, or by Executive or Administrative Act of the National Executive for governmental or official purposes unless other provisions are made by law in respect of their inspection and audit.

I am also empowered under Section 214(3) if I consider it proper to do so, to inspect and audit and report to the Parliament on any accounts, finances or property of a body, in so far as they relate to, or consist of, or are derived from public moneys or property of PNG.

#### B.2 Audit Act

By virtue of Section 214(4) of the Constitution, the Audit Act 1989, which became effective from 1 May 1989, provides more details of my functions under Sub-sections (1), (2) and (3) of the Constitution. The Audit Act that was derived from the Constitution elaborates the functions and the duties of the Auditor-General. This Act was amended in 1995 and the relevant provisions of the amended Act are explained below.

## General

### B.3 Auditing and Reporting Requirements

In Section 8, Sub-sections 2 and 4 of the Audit Act were amended to include provisions governing the auditing and the reporting requirements of public bodies including government owned companies incorporated under the Companies Act 1997.

### B.4 Matters of Significant Importance

Under Section 8(2) of the Act, I am required to inspect and audit the accounts and records of financial transactions and the records relating to the assets and liabilities of these public bodies and their subsidiaries, and to report to the Minister vested with the responsibility for the public body and the Minister in charge of Finance any irregularities found during the inspection and audit.

### B.5 Audit Opinion on Financial Statements

Section 8(4) of the Audit Act requires me to audit the financial statements of the public bodies and to report an opinion to the aforementioned Ministers on:

- \* Whether the financial statements are based on proper accounts and records;
- \* Whether the financial statements are in agreement with those accounts and records; and
- \* Whether they show fairly the financial operations for the period which they cover and the state of affairs at the end of that period.

### B.6 Public Finances (Management) Act

The submission of the financial statements of public bodies for audit is required under Section 63(4) of the PFMA. The Section requires each public body to prepare and furnish to its Minister before 30 June each year, a report on its operations for the year ended on 31 December proceeding, together with financial statements in respect of that year duly audited by me.

The Minister is then required to table the report on the operations and the financial statements, together with my report on the financial statements, at the first meeting of the Parliament after receiving them.

### B.7 Companies Act

I am required to audit National Government owned companies and subsidiary companies under the provisions of the Companies Act.

Though these companies are registered under the Companies Act, my responsibility to audit them is by virtue of Sections 48 and 63 of the PFMA and Section 3 of the Audit Act.

## C. AUDIT OF PUBLIC BODIES

## C.1 Scope of Audit

Presently, the limited resources available to my Office are directed primarily towards financial attestation and compliance or regularity audit of Public Bodies. Due to resource constraints, I have not been able to venture into the audits of information systems.

The full scope of my audit responsibility in respect of Public Bodies covers the Statutory Bodies and their subsidiaries, National Government owned companies and their subsidiaries, and the companies in which the government has minority interest.

## C.2 Audit Objectives

Under the Companies Act I am required to ascertain whether proper accounting records have been kept; whether the financial statements comply with generally accepted accounting practice; and whether those financial statements give a true and fair view of the matters to which they relate. The Act also requires the auditor to report the instances of non-compliance with these requirements. More details on the audit responsibilities under the Companies Act are provided in Section B of this Report which covers the National Government owned companies.

## C.3 Reporting Framework

My audits are conducted in accordance with the International Standards on Auditing to provide reasonable assurance that the financial statements are free of material misstatements. The audit procedures include examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, evaluation of accounting policies and significant accounting estimates, and ensuring that the financial statements are presented fairly and in accordance with the International Accounting Standards (IAS) and statutory requirements.

## D. APPOINTMENT AND USE OF AUTHORISED AUDITORS

Section 8(5) of the Audit Act empowers me to employ registered company auditors to assist me in undertaking my Constitutional Duties, where such assistance is required.

During the period covered in the Report, I engaged a number of registered company auditors to perform audits of numerous Statutory Bodies and National Government owned companies.

## E. EXECUTIVE SUMMARY

### E.1 Report Coverage

This Report covers the audit reports issued by my Office on the audits of Public Bodies and their Subsidiaries, Government Owned Companies, and National Government's shareholdings in Other Companies during the period July 2013 to June 2014 (2013/2014 Audit Cycle). The Report covers the audits of these entities' financial statements for a number of years, not just 2013.

In 2013 there were 89 public entities subject to audit by my Office, consisting of 74 Public Bodies and their Subsidiaries and 15 National Government Owned Companies. In addition, my Statutory Bodies Audit Division also carried out audits on 9 Projects managed by Public entities as implementing agencies:

1. Civil Aviation Development Investment Program (CADIP)

2. Cocoa Pod Borer Project
3. Cocoa Quality Promotion Project
4. Japanese Fund for Poverty Reduction Project
5. Lae Port Development Project
6. National Agricultural Research Institute/PNG Incentive Fund Project
7. National Capital District Commission Urban Youth Employment Project
8. Port Moresby Sewerage System Upgrading Project (POMSSUP)
9. Productive Partnership in Agriculture Project

The results of these audits are presented in a separate Special Projects Audit report presented to the National Parliament.

I am also responsible for reporting on the audits of 6 Companies, in which the National Government has a minority shareholding, that are audited by the private sector. These are reported under Section C of this Report.

## E.2 Consistency in audit findings over a number of years

The Report's findings are consistent with those in my previous years' reports that have highlighted my concerns over the number of entities that do not submit current year financial statements for audit, and the overall poor state of the financial management structure in most public entities whose statements are subject to my audit and inspection.

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

Financial management in the public sector is the establishment and maintenance of policies, processes and procedures to achieve effective and efficient management of public funds in such a manner as to achieve the objectives of the organisation. It consists of planning, directing, monitoring, organizing and controlling the monetary resources of an organisation. Unfortunately many organisations have indicated they are incapable of managing their financial affairs. Weaknesses with financial management are contributing to significant wastage of financial resources and indicate a serious lack of transparency and accountability. Ultimately these weaknesses adversely impact upon the delivery of services to the citizens of PNG.

## E.3 Submission of current year Financial Statements

Section 63 (4) of the PFMA requires a '... public body to prepare and furnish to its Minister before 30 June each year, a performance and management report of its operations for the year ended 31 December preceding, together with financial statements to enable the Minister to present such report and statements to the Parliament ...'

Before submitting the financial statements to the Minister, Section 63(4) requires a public body to submit the financial statements to the Auditor-General and for the Auditor-General to report to the Minister in accordance with Part II of the Audit Act.



Despite these legislative requirements, 62 entities had not submitted their 2013 financial statements to be audited and overall some 54 financial statements for 2012 and prior years had not been submitted for audit (Refer Table A).

The details of the audits in arrears and those entities whose financial statements have been outstanding for a number of years are shown in Attachment 'B'.

Table A

STATUS OF AUDITS DURING THE YEAR 2013 (END OF 2013/2014 CYCLE)

Year

Audits Completed

Audits Substantially Completed

Audits in Progress

Audits to Commence Shortly  
Financial Statements not Submitted

Total 2013/2014

Total 2012/2013

2013

14

5

5

10

62

96

-

2012

31

14

3

8

30

86

90

2011

15

18

5

5

11

54

81

2010  
18  
6  
1  
3  
4  
32  
51  
2009  
9  
1  
-  
1  
3  
14  
25  
2008  
5  
-  
-  
-  
3  
8  
15  
2007  
3  
4  
-  
-  
1  
8  
12  
2006  
1  
3  
-  
-  
1  
5  
9  
2005  
1  
2  
-  
-  
1  
4  
8  
2004  
2  
2

-  
-  
-  
4  
8  
2003  
2  
2  
-  
-  
-  
4  
5  
Total  
101  
57  
14  
27  
116  
315  
304

Table A also shows that 172 audits were either completed, substantially completed or still in progress as at 30th June 2014. The details are graphically depicted in Attachment 'C', which also included the arrears of prior years. Table A also shows that of the 101 audits completed, only 14 were for the current year (2013), with 10 current year audits substantially completed or were in progress. A further 10 audits were to commence shortly. Graphical description of the status of current year 2013 audits (excluding arrears) is given in Attachment 'A'. The list of entities is at Schedule 'A' (i), (ii), (iii) & (iv).

#### E.4 Type of Audit Opinions Issued<sup>1</sup>

In the period covered by the audit, 101 audit opinions were issued. Of the 101 audit opinions issued, 27 were unqualified, 38 were qualified and 36 were Disclaimer Opinions.

Of the 27 unqualified opinions issued, 15 related to prior years and only 12 were for 2013 as follows:

1. Bank of PNG;
2. Cocoa Stabilisation Fund;
3. Independent Consumer and Competitive Commission;
4. Kokonas Industri Koporesen;
5. PNG Extension Fund;
6. PNG Coconut Research Fund;
7. National Agriculture Research Institute;
8. Tourism Promotion Authority
9. Post (PNG) Limited;
10. National Agriculture Research Institute/PNG Incentive Fund Project;
11. National Capital District Commission Urban Youth Employment Project; and
12. Productive Partnership in Agriculture Project.

Two of the qualified opinions related to 2013 and others were for prior years. The high numbers of Disclaimer Audit Opinions issued are a reflection of the poor state of accounting, record-keeping and financial management practices in a number of public bodies.

The list of entities and the type of audit opinions issued during the period July 2013 to June 2014 are provided in Attachment 'D'.

Types of Audit Opinions issued for each entity over the period of four years from 2010 - 2013 are detailed on Attachment 'E'.

1 The types of audit opinions are: Unqualified Opinion - A Company's financial statements are presented fairly, in all material respects in conformity with generally accepted accounting principles. Qualified Opinion - The financial statements "except for" certain issues fairly present the financial position and operating results of the firm. The except for opinion relates to inability of the auditor to obtain sufficient objective and verifiable evidence in support of business transactions of the Company being audited. Disclaimer Opinion - When insufficient competent evidential matter exists to form an audit opinion due to scope limitation or uncertainties. Adverse Opinion - The Company's financial statements do not present fairly the financial position, results of operations, or changes in financial position or are not in conformity with generally accepted accounting principles.

## E.5 Key Findings

The key findings from the audits centered primarily on the non-submission of the financial statements, non-compliance with the Salaries and Conditions Monitoring Committee (SCMC) regulatory mechanisms for salaries and wages, lack of basic accounting records and ineffective internal control systems. These issues are highlighted in the paragraphs below.

## E.6 Non-Submission of Financial Statements

As stated earlier, Section 63(4) of the PFMA requires each public body to prepare and furnish to its Minister before 30 June each year, a report on its operations for the year ended 31 December preceding together with financial statements in respect of that year duly audited by me for tabling in Parliament.

This legislative requirement has not been strictly adhered to by all respective public entities' management. To comply with this requirement, the financial statements are required to be submitted to my Office well before 30th June each year for my audit and inspection. Consequently, out of 89 public entities and 9 Projects only 34 (30 entities and 4 projects) have submitted their financial statements for 2013 (Refer Schedule A (i), (ii), (iii) & (iv) for my audit and inspection up to the time of preparing this Report. A total of 62 (57 entities and 5 projects) failed to comply with these provisions (Refer Schedule A (v)). The public entities and project audits referred to above does not include 6 Companies with minority Government shareholdings.

The Status of Audits in Table A also includes the Project Audits. Refer to Schedule D (c) for status of Project Audits.

The non-compliance of the public entities mentioned above has resulted in:

- \* My Office not being able to report adequately on the accountability of the use of public resources in a timely manner;
- \* A buildup of audits in arrears; and
- \* The non-tabling of Annual Reports on performance and management by public entities in the Parliament.

### Responsibility for Submission of Financial Statements

An entity's management is responsible for preparing and presenting financial statements for my audit and inspection. It is also the responsibility of management to ensure that an adequate and effective internal control system is maintained to ensure that complete and accurate financial statements are produced on a timely basis.

### My Office recommendation

There is vigorous enforcement of the provisions of Section 63 of the PFMA and a legislative requirement is established to make the renewal of contracts of Chief Executive Officers subject to submission of financial statements and implementation and maintenance of prudent financial management.

These recommendations are to help achieve financial management accountability and good governance in the public sector.

Details of audits that have gone into arrears due to non-submission of financial statements from 2012 or earlier are given below in Table B and Schedule 'C'.

### Table B Financial Statements not Submitted

No.
Section
Para No.
Entity
No. of Audits

1

A

8

Government Printing Office

1

2

A

9

Independence Fellowship Trust

1

3

A  
12  
Industrial Centres Development Corporation  
1  
4  
A  
16  
Mineral Resources Authority  
1  
5  
A  
20  
National AIDS Council Secretariat  
1  
6  
A  
23  
National Cultural Commission  
1  
7  
A  
37  
National Youth Commission  
1  
8  
A  
43  
Papua New Guinea Immigration and Citizenship Service Authority  
  
1  
9  
A  
45  
Papua New Guinea Institute of Medical Research  
1  
10  
A  
46  
Papua New Guinea Institute of Public Administration  
1  
11  
A  
50  
Papua New Guinea University of Technology  
1  
12  
A  
52  
Public Curator of Papua New Guinea  
1  
13

A  
58A  
Unisave Limited  
1  
14  
A  
58B  
Univentures Limited  
1  
15  
B  
63  
Mineral Resources Development Company Limited  
1  
16  
B  
65  
National Airports Corporation Limited  
1  
17  
B  
65A  
Airport City Development Limited  
1  
18  
B  
66  
National Petroleum Company of PNG (Kroton) Limited  
1  
19  
D  
82  
Cocoa Quality Promotion Project  
1  
20  
A  
38  
Office of Climate Change and Development  
2  
21  
A  
39  
Oil Palm Industry Corporation  
2  
22  
A  
44  
Papua New Guinea Forest Authority  
2  
23  
A

48  
Papua New Guinea National Institute of Standards and Industrial Technology  
2  
24  
A  
53  
Security Industries Authority  
2  
25  
A  
59  
Water PNG  
2  
26  
B  
62  
Livestock Development Corporation Limited  
2  
27  
A  
56A  
Unigor Consultancy Limited  
3  
28  
A  
22A  
National Capital District Botanical Enterprises Limited  
5  
29  
A  
22B  
Port Moresby City Development Enterprises Limited  
5  
30  
A  
49  
Papua New Guinea Sports Foundation  
8

### Arrears Reduction Strategies

During the last Audit Cycle, I took steps as in the past to remind various entities of their responsibilities to submit the financial statements on a timely basis. These steps include but are not limited to the following:

- \* Forwarding reminder letters to entities on a regular basis until the submission of the financial statements;
- \* Copies of these reminder letters were forwarded to the Public Accounts Committee and to the Secretary for Finance for their necessary action;
- \* My officers have visited various entities and had meeting with the Chief Executive Officers



regarding non-submission of the financial statements and drew their attention to their responsibilities under the PFMA and the resultant breach of the that Act; and

\* Senior officers of the Division attended various audit committee meetings during the cycle and emphasised the importance of bringing the audits up to date. My officers attended the following audit committee meetings during the cycle:

- ? National Capital District Commission;
- ? Civil Aviation Safety Authority of PNG;
- ? University of PNG;
- ? National Housing Corporation; and
- ? University of Goroka.

I have set a goal to significantly reduce the arrears situation and the entities listed under Attachment 'F' indicate the arrears cleared during the audit cycle. This reduction largely reflects the collective efforts of all my staff members to better manage the audits in arrears.

#### E.7 Non-Compliance of the Salaries and Conditions Monitoring Committee Act

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

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

#### E.8 Non-compliance with the Audit Act 1989

Some entities owned by the State have amended their enabling Acts to exclude my Office from performing the audit of those entities and appointed their own auditors in contrary to the Audit Act. The following state owned entities have appointed their own Auditors:

- \* Petromin Limited; and
- \* National Development Bank Limited.

#### E.9 Lack of Basic Accounting Records and Inadequate Control Systems

As reported in previous years, during the course of audits I noted serious deficiencies in accounting and record keeping practices and the maintenance of internal controls. These deficiencies, which contributed to the limitation on the scope of my audit procedures, included:

- \* Bank reconciliation statements not being prepared in a timely way or not being prepared at all;
- \* Transactions not having supporting documentation;
- \* Fixed asset registers not being properly kept or maintained;
- \* No consistent and proper valuation of assets;
- \* Physical asset stock-takes not being carried out;
- \* Property being acquired or disposed of without proper procedures being followed;
- \* Failure to comply with International Financial Reporting Standards in the preparation of the

financial statements;

- \* Travel and other allowances not being fully acquitted;
- \* Internal Revenue Commission (IRC) regulations on payment of taxes not being followed;
- \* Entities paying housing allowances and Boards members allowances without tax but allowing officers to pay the tax;
- \* Accounting, administrative and procedural manuals not being available;
- \* Public servants serving on Statutory Boards receiving Board allowances contrary to regulations;
- \* Ineffective internal audit functions; and
- \* Ineffective budget controls.

The above factors contributed to the limitations on the scope of my audits which resulted in the issuance of Disclaimer Audit Opinions in respect of many of the Reports issued during the year, as shown in Attachment 'D'.

#### E.10 Poor Financial Management

Over a number of years, I have expressed my concern about public bodies' poor accounting records, weaknesses in internal controls and management information systems, and non-compliance with legislative requirements and the International Financial Reporting Standards. I also consider that a large number of Chief Executive Officers do not pay sufficient attention to financial management in their entities. In my view, the concept of effective, prudent and efficient financial management is yet to be understood and practiced by many Chief Executive Officers.

#### E.11 Recommendations for Improvement

Consistent with comments in previous years' Reports, I will report to the Parliament in future that proper accounting records and adequate internal control systems must exist in all public entities subject to my audit.

For that to be achieved, I believe that Chief Executive Officers are required to exercise proper leadership that provides an environment where there is:

- \* Timely submission of financial statements;
- \* Improved record keeping and documentation;
- \* Maintenance and provision of quality information;
- \* Effective implementation of internal control systems;
- \* Sound financial management implemented and adopted by qualified and experienced accountants; and
- \* Implementation of all my audit recommendations.

#### E.12 Improvement Strategies

In my view, for improvement to occur:

- \* Chief Executive Officers must employ well trained and professionally qualified accounting staff to manage the financial affairs of the organisation;
- \* Chief Executive Officers must understand the value of and how to implement a strong governance framework and their performance should be regularly assessed against implementation of the framework;
- \* Parliament must increase its reviews of the management of public entities and provide Chief Executive Officers with incentives to improve their management structures; and the Department of Finance must exercise its discretion to invoke Section 63(8) of the PFMA by withholding funds for

those entities that have not submitted their financial statements until the financial statements are submitted and/or completion of the audit.

### E.13 Structure of the Report

This Report is structured as follows:

Section A – Public Bodies and Their Subsidiaries; Section B – National Government Owned Companies;  
Section C – National Government Shareholdings in Other Companies; and Section D – Problem Audits.

### ATTACHMENT 'A'

#### STATUS OF CURRENT YEAR AUDITS 2013

No.	Status of Current Year Audits	Number of Entities
-----	-------------------------------	--------------------

2013		
2012		
(A)	Audits completed and reports issued thereon (Schedule A)	
14		
9		

(B)	Audits substantially completed (Schedule A)	
5		
12		

(C)	Audits in progress (Schedule A)	
5		
7		

(D)	Audits to commence shortly (Schedule A)	
10		
11		

(E)	Financial Statements not submitted (Schedule A)	
62		
51		

(F)	Audit Portfolios transferred to Provincial Government Audit Branch (Schedule A)	
0		

0

0  
(G)  
Ceased Companies (Schedule A)  
0  
0

96  
90

Please refer to Pages 273 to 284 for Schedules A to E.

## ATTACHMENT 'B'

### STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2012 AND PRIOR YEARS)

No.  
Status of Audits in Arrears by No. of Audits (2012 and Prior Years)  
Number of Audits

2013  
2012  
(A)  
Audits substantially completed (Schedule B)  
52  
52  
(B)  
Audits in progress (Schedule B)  
9  
23  
(C)  
Audits to commence shortly (Schedule B)  
17  
8  
(D)  
Financial Statements not submitted (Schedule B)  
54  
55

132  
138

ATTACHMENT 'C'

STATUS OF AUDITS AS AT 30 JUNE 2013

No.

Status of Audits  
Number of Audits

2013/2014

2012/2013

(A)

Audits completed and reports issued thereon (Schedule A and E)

101

85

(B)

Audits substantially completed (Schedule A and B)

57

64

(C)

Audits in progress (Schedule A and B)

14

30

(D)

Audits to commence shortly (Schedule A and B)

27

19

(E)

Financial Statements not submitted (Schedule A and B)

116

106

315

304

ATTACHMENT 'D'

TYPES OF AUDIT OPINIONS ISSUED

(i) UNQUALIFIED OPINION

No.

Section  
Para. No.

Entity

Year  
No. of Audits

1

A

2

Bank of Papua New Guinea

2013

1

2

A

4

Civil Aviation Safety Authority of Papua New Guinea

2010 & 2011

2

3

A

5A

Cocoa Stabilisation Fund

2013

1

4

A

10

Independent Consumer and Competition Commission

2013

1

5

A

13

Investment Promotion Authority

2012

1

6

A

14

Kokonas Industri Koporesen

2012 & 2013

2

7

A

14A

Papua New Guinea Coconut Extension Fund

2012 & 2013

2

8

A

14B

Papua New Guinea Coconut Research Fund

2012 & 2013

2

9

A

19

National Agriculture Research Institute

2013

1

10

A

32

National Research Institute

2012

1

11

A

40

Ombudsman Commission of Papua New Guinea

2011 & 2012

2

12

A

51

Parliamentary Members Retirement Benefits Fund

2012

1

13

A

55

Tourism Promotion Authority

2012 & 2013

2

14

B

70

Post (PNG) Limited

2013

1

15

B

71B

PNG Directories Limited

2012

1

16

D

80

Civil Aviation Development Investment Program (CADIP)

2012

1  
17  
D  
83  
Japan Fund for Poverty Reduction Project  
2011 & 2012

2

18

D

85  
National Agriculture Research Institute/PNG Incentive Fund Project

2013

1

19

D

86  
National Capital District Commission Urban Youth Employment Project

2013

1

20

D

88  
Productive Partnership in Agriculture Project

2013

1

27

(ii) QUALIFIED OPINION

No.

Section

Para. No.

Entity

Year

No. of Audits

1

A



5  
Cocoa Board of Papua New Guinea  
2012 & 2013  
2  
2  
A  
5A  
Cocoa Stabilisation Fund  
2012  
1  
3  
A  
7  
Coffee Industry Corporation Limited  
2012  
1  
4  
A  
7A  
Coffee Industry Fund  
2012  
1  
5  
A  
7B  
Patana No. 61 Limited  
2012  
1  
6  
A  
11B  
General Business Trust  
2012  
1  
7  
A  
12  
Industrial Centres Development Corporation  
2010  
1  
8  
A  
15  
Legal Training Institute  
2012  
1  
9  
A  
23  
National Cultural Commission  
2010 & 2011

2  
10  
A  
24  
National Economic and Fiscal Commission  
2007 - 2013  
7

No.

Section  
Para. No.

Entity

Year  
No. of Audits

11  
A  
29  
National Maritime Safety Authority  
2012

1  
12  
A  
33  
National Road Safety Council  
2012

1  
13  
A  
34  
National Roads Authority  
2011 & 2012

2

14

A

43  
Papua New Guinea Immigration and Citizenship Service Authority

2011

1  
15

A  
45  
Papua New Guinea Institute of Medical Research  
2011  
1  
16  
A  
47  
Papua New Guinea Maritime College  
2009 & 2010  
2  
17  
A  
50A  
Unitech Development and Consultancy Company Limited  
2011 & 2012  
2  
18  
A  
53  
Security Industries Authority  
2010  
1  
19  
A  
54  
Small Business Development Corporation  
2011  
1  
20  
A  
57  
University of Natural Resources and Environment  
2011 & 2012  
2  
21  
B  
61  
Air Niugini Limited  
2012  
1  
22  
B  
64  
Motor Vehicles Insurance Limited  
2010  
1  
23  
B  
65B  
PNG Air Services Limited

2012  
1  
24  
B  
66  
National Petroleum Company of PNG (Kroton) Limited

2010

1

25

B

71

Telikom PNG Limited

2012

1

26

B

71A

Kalang Advertising Limited

2012

1

38

(iii) DISCLAIMED OPINION

No.

Section

Para. No.

Entity

Year

No. of Audits

1

A

6

Cocoa Coconut Institute Limited of Papua New Guinea

2012

1

2

A

8

Government Printing Office

2010 & 2011

2

3

A

16

Mineral Resources Authority

2010

1  
4  
A  
20  
National AIDS Council Secretariat  
2009 & 2010

2  
5  
A  
21  
National Broadcasting Corporation  
2012

1  
6  
A  
22A  
National Capital District Botanical Enterprises Limited  
2003 - 2006

4  
7  
A  
27  
National Housing Corporation  
2008 - 2010

3  
8  
A  
28  
National Information and Communication Technology Authority (NICTA)  
2010 & 2011

2  
9  
A  
30  
National Museum and Art Gallery  
2009 & 2010

2  
10  
A  
31  
National Narcotics Bureau  
2008 & 2009

2  
11  
A  
36

National Volunteer Service

2007 – 2010

4

12

A

49

Papua New Guinea Sports Foundation

2003 & 2004

2

13

A

56

University of Goroka

2009 & 2010

2

14

A

58B

Univentures Limited

2007 – 2011

5

15

A

59

Water PNG

2010

1

16

B

69

PNG Power Limited

2011 & 2012

2

36

GRAND TOTAL 101

ATTACHMENT 'E'

COMPARATIVE AUDIT OPINIONS ISSUED (2010 – 2013)

No.

Section

Para. No.

Entity

2013

2012

2011

2010

1

A

2

Bank of Papua New Guinea

Unqualified

Unqualified

Unqualified

Unqualified

2

A

3

Border Development Authority

Qualified

3

A

4

Civil Aviation Safety Authority of Papua New Guinea

Unqualified

Unqualified

4

A

5

Cocoa Board of Papua New Guinea

Qualified

Qualified

Qualified

Qualified

5

A

5A

Cocoa Stabilisation Fund

Unqualified

Qualified

Qualified

Qualified

6

A

6

Cocoa Coconut Institute Limited of Papua New Guinea

Disclaimer

Disclaimer

Disclaimer

7

A

7

Coffee Industry Corporation Limited



Qualified

Qualified

Qualified

8

A

7A

Coffee Industry Fund

Qualified

Qualified

Qualified

9

A

7B

Patana No. 61 Limited

Qualified

Qualified

Qualified

10

A

8

Government Printing Office

Disclaimer

Disclaimer

11

A

9

Independence Fellowship Trust

Unqualified

Unqualified

12

A

10  
Independent Consumer and Competition Commission

Unqualified

Qualified

Unqualified

Unqualified

13

A

11  
Independent Public Business Corporation

Disclaimer

Qualified

14

A

11A  
Aquarius No.61 Limited

Disclaimer

15

A

11B  
General Business Trust

Qualified

Qualified  
Unqualified  
16  
A  
11C  
PNG Dams Limited

Disclaimer  
Disclaimer

17

A

11D  
Port Moresby Private Hospital Limited

Qualified

18

A

12  
Industrial Centres Development Corporation

Qualified

19

A

13  
Investment Promotion Authority

Unqualified

Qualified

Qualified

20

A

14

Kokonas Industri Koporesen

Unqualified

Unqualified

Unqualified

Unqualified

21

A

14A

Papua New Guinea Coconut Extension Fund

Unqualified

Unqualified

Unqualified

Unqualified

22

A

14B

Papua New Guinea Coconut Research Fund

Unqualified

Unqualified

Unqualified

Unqualified

23

A

15

Legal Training Institute

Qualified

Unqualified

Unqualified

24

A

16

Mineral Resources Authority

Disclaimer

No.

Section

Para. No.

Entity

2013

2012

2011

2010

25

A

18

National Agriculture Quarantine and Inspection Authority

Qualified

Qualified

Qualified

26

A

19

National Agriculture Research Institute

Unqualified

Unqualified

Unqualified

Unqualified

27

A

20

National AIDS Council Secretariat

Disclaimer

28

A

21

National Broadcasting Corporation

Disclaimer

Disclaimer

Disclaimer

29

A

23

National Cultural Commission

Qualified

Qualified

30

A

24

National Economic and Fiscal Commission

Qualified

Qualified

Qualified

Qualified

31

A

25

National Fisheries Authority

Qualified

Qualified

32

A

26

National Gaming Control Board

Qualified

Qualified

Qualified

33

A

27  
National Housing Corporation

Disclaimer

34

A

28  
National Information and Communication Technology Authority (NICTA)

Disclaimer

Disclaimer

35

A

29  
National Maritime Safety Authority

Qualified

Qualified

Qualified

36

A

30  
National Museum and Art Gallery

Disclaimer



37

A

32

National Research Institute

Unqualified

Unqualified

Unqualified

38

A

33

National Road Safety Council

Qualified

Qualified

Qualified

39

A

34

National Roads Authority

Qualified

Qualified

Qualified

40

A

36

National Volunteer Service

Disclaimer

41

A

37

National Youth Commission

Qualified

Qualified

42

A

39

Oil Palm Industry Corporation

Qualified

43

A

40

Ombudsman Commission of Papua New Guinea

Unqualified

Unqualified

Unqualified

44

A

43

Papua New Guinea Immigration and Citizenship Service Authority

Qualified

Unqualified

45

A

45

Papua New Guinea Institute of Medical Research

Qualified

Qualified

46

A

46

Papua New Guinea Institute of Public Administration

Unqualified

47

A

47

Papua New Guinea Maritime College

Qualified

No.

Section

Para. No.

Entity

2013

2012

2011

2010

48

A

50A

Unitech Development & Consultancy Company Limited

Qualified

Qualified

Disclaimer

49

A

51

## Parliamentary Members Retirement Benefits Fund

Unqualified

Unqualified

Unqualified

50

A

52

Public Curator of Papua New Guinea

Disclaimer

51

A

53

Security Industries Authority

Qualified

52

A

54

Small Business Development Corporation

Qualified

Qualified

53

A

55

Tourism Promotion Authority

Unqualified

Unqualified

Unqualified

Unqualified

54

A

56

University of Goroka

Disclaimer

55

A

57

University of Natural Resources and Environment

Qualified

Qualified

Qualified

56

A

58B

Univentures Limited

Disclaimer  
Disclaimer

57

A

59

Water PNG (Former PNG Water Board)

Disclaimer

58

B

61

Air Niugini Limited

Qualified

Qualified

Qualified

59

B

63

Mineral Resources Development Company Limited

Qualified

60

B

64

Motor Vehicles Insurance Limited

Qualified

61

B

65

National Airports Corporation Limited

Qualified

62

B

65B

PNG Air Services Limited

Qualified

Qualified

Qualified

63

B

66

National Petroleum Company of PNG (Kroton) Limited

Qualified

64

B

67

NCD Water and Sewerage Limited (Eda Ranu)



Qualified

Qualified

Qualified

65

B

68

Papua New Guinea Ports Corporation Limited

Qualified

Disclaimer

66

B

69

PNG Power Limited

Disclaimer

Disclaimer

Disclaimer

67

B

70

Post PNG Limited

Unqualified

Unqualified

Unqualified

Unqualified

68

B

71

Telikom PNG Limited

Qualified

Qualified

Unqualified

69

B

71A

Kalang Advertising Limited

Qualified

Unqualified

Qualified

70

B

71B

PNG Directories Limited

Unqualified

Unqualified

Unqualified

71

D

80

Civil Aviation Development Investment Programme (CADIP)

Unqualified

Unqualified

Qualified

72

D

83

Japan Fund for Poverty Reduction Project

Unqualified

Unqualified

N/A

No.  
Section  
Para. No.  
Entity  
2013  
2012  
2011  
2010

73

D

84

Lae Port Development Project

Unqualified

Unqualified

74

D

85

National Agriculture Research Institute/PNG Incentive Fund Project

Unqualified

N/A

N/A

N/A

75

D

86

National Capital District Commission Urban Youth Employment Project

Unqualified

Unqualified

Unqualified

N/A

76

D

88

Productive Partnership in Agriculture Project

Unqualified

Unqualified

Unqualified

N/A

ATTACHMENT 'F'

AUDITS IN ARREARS (2012 AND PRIOR YEARS) COMPLETED DURING 2013/2014 AUDIT CYCLE

No.

Section

Para No.

Entity

Audits Completed and Reports Issued

Total Units

Audits Substantially Completed

Total Units

1

A

3

Border Development Authority

2011

1

2

A

4

Civil Aviation Safety Authority of Papua New Guinea

2010 – 2011

2

3

A

5

Cocoa Board of Papua New Guinea

2012

1

4

A

5A

Cocoa Stabilisation Fund

2012

1

5

A

6  
Cocoa Coconut Institute Limited of Papua New Guinea

2012

1

6  
A  
7  
Coffee Industry Corporation Limited

2012

1

7  
A  
7A  
Coffee Industry Fund

2012

1

8  
A  
7B  
Patana No. 61 Limited

2012

1

9  
A  
8  
Government Printing Office

2010 - 2011

2

10

A

11  
Independent Public Business Corporation

2012

1  
11  
A  
11A  
Aquarius No.61 Limited

2011 - 2012  
2  
12  
A  
11B  
General Business Trust  
2012  
1

13  
A  
11C  
PNG Dams Limited

2012  
1  
14

A  
11D  
Port Moresby Private Hospital Limited

2011 - 2012  
2  
15  
A  
12  
Industrial Centres Development Corporation

2010

1

2011

2  
16  
A  
13  
Investment Promotion Authority  
2012  
1

17  
A  
14  
Kokonas Industri Koporesen  
2012  
1

18  
A  
14A  
Papua New Guinea Coconut Extension Fund  
2012  
1

19  
A  
14B  
Papua New Guinea Coconut Research Fund  
2012  
1

20  
A  
15  
Legal Training Institute  
2012  
1

21  
A



16  
Mineral Resources Authority  
2010  
1

22  
A  
17  
Motu Koitabu Council

2003 – 2007  
5  
23  
A  
17A  
Tabudubu Limited

2003 – 2007  
5  
24  
A  
20  
National AIDS Council Secretariat  
2009 – 2010  
2

25  
A  
21  
National Broadcasting Corporation  
2012  
1

26  
A  
22  
National Capital District Commission

2010  
1

27

A

22A  
National Capital District Botanical Enterprises Limited

2003 – 2006

4

2007

1

28

A

22B  
Port Moresby City Development Enterprises Limited

2006 – 2007

2

29

A

23

National Cultural Commission

2010 – 2011

2

30

A

24

National Economic and Fiscal Commission

2007 – 2012

6

No.

Section

Para No.

Entity

Audits Completed and Reports Issued

Total Units

Audits Substantially Completed

Total Units

31

A

25

National Fisheries Authority

2012

1

32

A

27

National Housing Corporation

2008 - 2010

3

33

A

28

National Information and Communication Technology Authority (NICTA)

2010 - 2011

2

34

A

29

National Maritime Safety Authority

2012

1

35  
A  
30  
National Museum and Art Gallery  
2009 – 2010

2  
2011 – 2012

2  
36  
A  
31  
National Narcotics Bureau  
2008 – 2009

2  
2010 – 2012

2  
37  
A  
32  
National Research Institute  
2012  
1

38  
A  
33  
National Road Safety Council  
2012  
1

39  
A  
34  
National Roads Authority  
2011 – 2012  
2

40  
A  
35  
National Training Council

2010 – 2012  
3  
41  
A

36  
National Volunteer Service  
2007 – 2010  
4  
2011 – 2012  
2

42

A

40  
Ombudsman Commission of Papua New Guinea  
2011 – 2012

2

43

A

43  
Papua New Guinea Immigration and Citizenship Service Authority  
2011

1

44

A

44  
Papua New Guinea Forest Authority

2009

1

45

A

45  
Papua New Guinea Institute of Medical Research

2011

1

46

A

46

Papua New Guinea Institute of Public Administration

2011

1

47

A

47

Papua New Guinea Maritime College

2009 – 2010

2

2011 – 2012

2

48

A

48

Papua New Guinea National Institute of Standards and Industrial Technology

2010

1

49

A

49

Papua New Guinea Sports Foundation

2003 – 2004

2

50

A

50A

Unitech Development and Consultancy Company Limited

2011 – 2012

2

51

A

51

Parliamentary Members Retirement Benefits Fund

2012

1

52

A

52

Public Curator of Papua New Guinea

2011

1

53

A

53  
Security Industries Authority  
2010  
1

54

A

54  
Small Business Development Corporation

2011

1

55

A

55

Tourism Promotion Authority  
2012

1

56

A

56

University of Goroka  
2009 - 2010

2

2011

1

57

A

57  
University of Natural Resources and Environment

2011 - 2012

2

58

A

58A

Unisave Limited



2011  
1  
59  
A  
58B  
Univentures Limited  
2007 - 2011  
5

60  
A  
59  
Water PNG  
2010  
1

61  
B  
61  
Air Niugini Limited  
2012  
1

No.

Section  
Para No.

Entity  
Audits Completed and Reports Issued  
Total Units  
Audits Substantially Completed  
Total Units

62

B

63  
Mineral Resources Development Company Limited

2011

1

63

B

64

Motor Vehicles Insurance Limited

2010

1

64

B

65B

PNG Air Services Limited

2012

1

65

B

66

National Petroleum Company of PNG (Kroton) Limited

2010

1

2011

1

66

B

68

Papua New Guinea Ports Corporation Limited

2012

1

67

B

69

PNG Power Limited  
2011 – 2012  
2

68  
B  
71  
Telikom PNG Limited  
2012  
1

69  
B  
71A  
Kalang Advertising Limited  
2012  
1

70  
B  
71B  
PNG Directories Limited  
2012  
1

71  
D  
80  
Civil Aviation Development Investment Programme (CADIP)  
2012  
1

72  
D  
81  
Cocoa Pod Borer Project

2010 – 2012  
3  
73

D  
82  
Cocoa Quality Promotion Project

2011  
1  
74

D  
83  
Japan Fund for Poverty Reduction Project

2011 - 2012

2

75  
D  
84  
Lae Port Development Project

2012  
1  
76

D  
87  
Port Moresby Sewerage System Upgrading Project (POMSSUP)

2010 - 2012

3

87

51

## SECTION A

### PUBLIC BODIES AND THEIR SUBSIDIARIES

#### 1. FOREWORD

This Section of my Report deals with the audit of public bodies and their subsidiaries.

The auditing and reporting requirements of the public bodies and their subsidiaries are stipulated in Section 8 of the Audit Act. My findings in that regard are detailed in paragraphs 2 to 59 of this part of my Report.

#### 2. BANK OF PNG

##### 2.1 INTRODUCTION

###### 2.1.1 Legislation and Objectives of the Bank

The Bank of PNG was established under the Central Banking Act (Chapter 138). This Act was in operation until 16 June 2000 when it was repealed and replaced by the Central Banking Act 2000.

The main objectives of the Bank of PNG as stipulated in the new Act are:

- \* To formulate and implement the monetary policy with a view to achieving and maintaining price stability;
- \* To formulate financial regulation and prudential standards to ensure stability of the financial system in PNG;

- \* To promote an efficient national and international payments system; and
- \* Subject to the above, to promote macro-economic stability and economic growth in PNG.

### 2.1.2 Functions of the Bank

The primary functions of the Bank are to:

- \* Issue currency;
- \* Act as banker and agent of the Government;
- \* Regulate banking, credit and other financial services as empowered by the Act or by any other law of the Independent State of PNG;
- \* Manage the gold, foreign exchange and other international reserves of PNG;
- \* Perform any function conferred on it by or under international agreement to which PNG is a party;
- \* Perform any other functions conferred on it by or under any other law of PNG; and
- \* Advise the Minister as soon as practicable where the Bank considers that a body regulated by the Central Bank is in financial difficulty.

### 2.1.3 Structural Reforms at the Bank

In addition to the Central Banking Act three other Acts were legislated in 2000 which gave enormous responsibilities to the Bank. These other Acts are:

1. Banks and Financial Institutions Act 2000;
2. Superannuation Act 2000; and
3. Life Insurance Act 2000.

Each of these Acts provides additional responsibilities to the Bank.

## 2.2 AUDIT OBSERVATIONS

### 2.2.1 Comments on Financial Statements

My report to the Ministers under Section 8(4) of the Audit Act on the financial statements of the Bank for the year ended 31 December 2013 was issued on 30 May 2014. The report did not contain any qualification.

### 2.2.2 Audit Observation Reported to the Ministers

My report to the Ministers under Section 8(2) of the Audit Act on the inspection and audit of the accounts and records of the Bank for the year ended 31 December 2013 was issued on 30 May 2014. The report contained the following matter:

#### Net Asset Deficiency – Going Concern

The Bank had a net capital deficiency as at 31 December 2013 where the Bank's total liabilities exceeded its total assets by K593 million. The capital deficiency along with other matters set forth in Note 1(a) indicated the existence of a material uncertainty that may cast doubt about the Bank's ability to continue as a going concern and therefore the Bank may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Bank brought this matter to the attention of the Minister for Treasury and submitted a letter dated 2 May 2014 to the Minister requesting a promissory note for the net asset deficiency. At the time of issuing this report the promissory note had not been provided to the Bank.

### 3. BORDER DEVELOPMENT AUTHORITY

#### 3.1 INTRODUCTION

##### 3.1.1 Legislation

The Border Development Authority was established under the Border Development Authority Act 2008. This Act came into operation on 7 October 2008.

##### 3.1.2 Objectives of the Authority

The objectives of the Authority are to manage and fund development activities in the Border Provinces of PNG and to make provision for the functions and powers of the Authority and for related purposes.

##### 3.1.3 Functions of the Authority

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

\* The co-ordination of the planning and implementation of capital works, infrastructure and socio-economic programs in respect to:

- Education, health care, road networks, communications, transport system, electricity, water, sewerage and all activities relevant to the improvement of basic living standards in the border provinces;

- Liaison with public bodies, non-government organisations and private enterprise in identifying and negotiating sources of funding for short to medium-term activities;

- The co-ordination of the development of specifications for contracts for all capital and infrastructure works and the advertising, evaluation and awarding of such contracts;

- The supervision and monitoring of the implementation of all contracts relating to such capital and infrastructure works;

- The transformation of border provinces into agro-financial sectors by developing their respective natural resources; and

- The promotion of investors, both foreign and local, into the border provinces and to encourage and facilitate international cross-border and inter-border trade.

\* The establishment of programs and regulatory framework for immigration including the monitoring of immigrants and immigrant activity along the border with respect to:

- Establishment of proper state of the art offices and facilities for relevant government agencies, including customs, immigration, quarantine, police, defence force, such as security monitoring systems, communications, transport, electricity, water, sewerage, staff accommodation, computers and all other facilities that would be relevant to the administration of border activities;

- Establishment of dialogue and co-operation with the respective cross-border authority or government for the prevention of diseases, drug trafficking, human smuggling, money laundering and other illicit activities; and

– The development of long-term activities for the establishment of infrastructure and other facilities.

\* Such other functions as are likely to assist in the border administration activities.

### 3.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the financial statements of the Authority for the year ended 31 December 2011 was completed and the findings were reported to Management on 4 March 2014. However, Management had not responded to my findings to enable me to issue the Report.

The financial statements for the year ended 31 December 2012 had been submitted for my inspection and audit and arrangements were being made to commence the fieldwork without delay.

The financial statements of the Authority for the year ended 31 December 2013 had not been submitted for my inspection and audit.

## 4. CIVIL AVIATION SAFETY AUTHORITY OF PNG

### 4.1 INTRODUCTION

#### 4.1.1 Legislation

The Civil Aviation Safety Authority of PNG was established on 1 January 2010 after the enactment of the Civil Aviation Act 2000.

#### 4.1.2 Functions of the Authority

The principal functions of the Authority are to:

- \* Undertake activities that promote safety in civil aviation at a reasonable cost;
- \* Ensure the provision of air traffic services, aeronautical communications services and aeronautical navigation services;
- \* Ensure the provision of meteorological services and science; and
- \* To own, operate, manage and maintain airports.

### 4.2 AUDIT OBSERVATIONS

#### 4.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8(4) of the Audit Act on the financial statements of the Authority for the years ended 31 December 2010 and 2011 were issued on 12 May 2014. The reports did not contain any qualification.

### 4.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements for the year ended 31 December 2012 was in progress.



The financial statements for the year ended 31 December 2013 had been submitted for my inspection and the audit will commence shortly.

## 5. COCOA BOARD OF PNG

### 5.1 INTRODUCTION

#### 5.1.1 Legislation

The Cocoa Board of PNG was established under the provisions of the Cocoa Act 1981.

#### 5.1.2 Functions of the Board

The principal functions of the Board are:

- \* To control and regulate the growing, processing, marketing and export of cocoa and cocoa beans and the equalisation and stockholding arrangements within the cocoa industry;
- \* To promote research and development programmes for the benefit of the cocoa industry; and
- \* To promote the consumption of PNG cocoa beans and cocoa products.

#### 5.1.3 Subsidiary of the Board

The Cocoa Coconut Institute Limited of PNG (formerly PNG Cocoa and Coconut Research Institute) was amalgamated with PNG Cocoa and Coconut Extension Agency Limited in 2003. The Institute is owned equally by the Cocoa Board and the Kokonas Industri Koporesen (KIK) of PNG. Comments in relation to the Cocoa Coconut Institute Limited of PNG are contained in paragraph 6 of this Report.

#### 5.1.4 Stabilisation Funds and Projects

The Board as a Trustee administers the Cocoa Stabilisation Fund as required under Part IV and VI of the Cocoa Act. Comments in relation to the Fund are contained in paragraph 5A of this Report.

The Board also administers the operations of the Cocoa Pod Borer Project, Cocoa Quality Promotion Project and the Productive Partnership in Agriculture Project. Comments in relation to the projects are contained in the Special Project Audits Report to Parliament.

## 5.2 AUDIT OBSERVATIONS

### 5.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8(4) of the Audit Act on the financial statements of the Board for the years ended 30 September 2012 and 2013 were issued on 16 December 2013 and 22 May 2014 respectively. The reports contained similar Qualified Opinions, hence only the 2013 audit report is reproduced.

Cocoa Board of Papua New Guinea

### “BASIS FOR QUALIFIED OPINION

Going Concern

The Board has prepared its financial statements on a going concern basis. However, as per Note 8 to the financial statements, the National Court in its ruling of 19 March 2010 awarded Agmark Pacific Limited K4,885,260 plus 8% interest and costs allegedly for collections of the Stabilisation Bounty illegally without the Minister's approval. Furthermore, the Board continuously makes a loss in its operations and its current Net Liability stands at K7,390,498. Should the appeal made in 2010 fail, the Board will not be able to pay the K4,885,260 within its current financial position unless an agreement is reached with Agmark Pacific Limited to pay the award over a period of time, or the State agrees to bail out the Board by paying the award. Otherwise the Board may be considered as insolvent and may be placed under receivership.

## QUALIFIED OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the Basis for Qualified Opinion paragraph:

- (a) The financial statements of the Board are based on proper accounts and records; and
- (b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Board as at 30 September 2013 and the results of its financial operations and cash flows for the year then ended."

### 5.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8(2) of the Audit Act on the inspection and audit of the accounts and records of the Board for the years ended 30 September 2012 and 2013 were issued on 16 December 2013 and 22 May 2014 respectively. These reports contained similar comments, hence, only the 2013 report is reproduced as follows:

#### MYOB Accounting System

My review on the general computer controls revealed that there was no security mechanism established to control the accessibility of the accounting system. I noted that authorised and unauthorised personnel had access to the system as there were no password controls in place. I further noted that there was no segregation of duties over the functions of data entry, posting of transactions and independent checks by authorised personnel. Regular checks on the General Ledger Reconciliations were not performed. As a result, many transactions were posted to wrong general ledger accounts that resulted in incorrect account balances disclosed in the financial statements at year end.

#### MYOB Trade Creditors Ageing

I noted that the Board did not maintain a system generated Trade Creditors Ageing listing from the MYOB Accounting System. I was only provided with a manual schedule as supporting documentation.

#### Cocoa Board of Papua New Guinea

An age analysis report is an important tool as it allows the Board to analyse the outstanding amounts owed to suppliers (creditors) in specified periods such as in 30, 60 and 90 plus days. These reports are vital for cash flow control and can also be used to schedule payments to creditors to optimise cash flow management.

## Travel Advance Register

I noted that the Board acquitted all its travel related expenses during the year. However, it did not maintain a Register to record all of its travel advances. As per the PFMA an authorising officer shall keep a Register of all travel advances and make sure that all advances are acquitted regularly. The Register shall record the date of issue, amount advanced, and purpose for the advance. I recommended Management comply with the requirements of Act and the Finance Instruction Manual. Management informed me that the Board will ensure a Register is maintained to record all advances paid to officers.

## 5A. COCOA STABILISATION FUND

### 5A.1 INTRODUCTION

#### 5A.1.1 Legislation

The Cocoa Stabilisation Fund was established under Section 19 of the Cocoa Act 1981. The Fund is administered by the Cocoa Board of PNG with the objective of establishing price stabilisation, price equalisation and stockholding arrangements within the cocoa industry.

### 5A.2 AUDIT OBSERVATIONS

#### 5A.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8(4) of the Audit Act on the financial statements of the Fund for the years ended 30 September 2012 and 2013 were issued on 16 December 2013 and 23 May 2014 respectively. The 2012 report contained a Qualified Opinion and the 2013 report did not contain any qualification.

#### 5A.2.2 Audit Observations Reported to the Ministers

In accordance with Section 8 (2) of the Audit Act I have a duty to report on significant matters arising out of the financial statements to which this report relates. However, no significant matters were noted during my audit.

## 6. COCOA COCONUT INSTITUTE LIMITED OF PNG

### 6.1 INTRODUCTION

#### 6.1.1 Legislation

The Cocoa Coconut Institute Limited of PNG (formerly PNG Cocoa and Coconut Research Company Limited) was amalgamated with PNG Cocoa and Coconut Extension Agency Limited in 2003. The Company is owned equally between the PNG Cocoa Board and the Kokonas Industri Koporesen (KIK) of PNG.

#### 6.1.2 Functions of the Company

The principal functions of the Company are:

\* To conduct research into all aspects of Cocoa and Coconut growing and production and all aspects of the Cocoa and Coconut industries;

- \* To promote research and beneficial programs for these industries;
- \* To provide assistance to all persons and bodies engaged in any aspect of the Cocoa and Coconut industries;
- \* To produce planting materials for the Cocoa and Coconut industries; and
- \* To provide consultancy services.

## 6.2 AUDIT OBSERVATIONS

### 6.2.1 Comments on Financial Statements

In accordance with the provisions of the Companies Act my report on the financial statements of the Company for the year ended 31 December 2012 was issued on 25 April 2014. The report contained a Disclaimer of Opinion.

#### “BASIS FOR DISCLAIMER OPINION

Year End Adjustments – K3,352,974

Year End Adjustments amounting to K3,352,974 related to prior year transactions taken up in the current year. I noted that there was no proper supporting documentation, listings or register for all year-end adjustments maintained by the Institute. As such, I was unable to ascertain the validity and accuracy of the year-end adjustments.

Cash at Bank and on Hand Balances – K955,955

In 2012, the Institute maintained fifty-four bank accounts and seven petty cash floats. My examination revealed that bank account reconciliations were not properly prepared in a timely manner. I noted that only two officers were responsible for all fifty-four bank accounts from data entry to reconciliations and there were no independent verification performed by any other officers. Thus mistakes and errors were never rectified on time, which resulted in un-reconciled variances at year end.

As a result, I was unable to comment whether the bank balances have been fairly stated in the financial statements.

Fixed Assets – K8,099,542

The Institute did not maintain a proper, complete and accurate Fixed Assets Register to record necessary details of assets such as date of purchase, assets serial numbers, depreciation schedule and movement of assets under its custody. I was unable to physically inspect certain assets against the records to confirm the existence and condition of these assets due to the absence of a proper register. I further noted that the Institute did not conduct an annual stock-take of its assets to verify the existence, ownership and valuation of assets. As a result of these discrepancies, I was unable to verify and confirm the fixed assets balance of K8,099,542 disclosed at 31 December 2012.

Trade Creditors – K124,024

The financial statements disclosed Trade Creditors as K124,024 at 31 December 2012. My review of the trade creditor's account revealed that payments made during the year in settling the

creditors were not properly updated against each respective creditors account. I noted invoices totalling K32,643 were showing as payable when in fact they were already paid. As such, I was unable to satisfy myself as to the completeness and accuracy of the total trade creditors balance stated at the year end.

### Statement of Equity

I noted that the net adjustments balance of K60,558 (debit) made against retained earnings was brought forward without any supporting documentation and schedules. As a result, I was not able to verify the validity and the measurement of the adjustments for the year ended 31 December 2012.

### Payroll Variances

In Note 21 to the financial statements, salaries and wages were stated as K3,594,143 and K2,626,016 respectively for the year ended 31 December 2012. In my review, I noted material variances of K312,297 and K827,499 respectively between the financial statements and the payroll summary. As a result of the unreconciled variances, I was not able to verify the validity of salaries and wages balances disclosed in the financial statements at year end.

### Payment Vouchers

During my review of expenses, I noted that on several instances payment vouchers totalling K833,960 were missing and could not be located. As a result, I was not able to verify the validity and the correctness of these payments.

## DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of PNG Cocoa Coconut Institute Limited for the year ended 31 December 2012.”

### 6.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records for the year ended 31 December 2012 was issued on 25 April 2014. The report contained the following observations.

#### Accounting System (Attaché Software)

In my review of the Institute’s Accounting Software (Attaché Software), I noted weakness over the access control to the software. Access control is the control that allows only authorised personnel to have direct access into the system. The Institute did not segregate the functions under access control thus resulting in posting errors. I further noted that Accounts Staff are not competent in using the software as no proper training was conducted in order for staff to be familiar with relevant technical know-how of the system application and the interfaces of the software.

#### Insurance Coverage

The financial statements disclosed fixed assets as K8,099,542 at year end. I noted that the Institute did not insure its properties, plant and equipment, motor vehicles and other related items to guard against any unforeseen events of loss through perils of fire and earthquakes. I recommended Management look into this matter seriously to safeguard the assets from loss. However, Management responded that due to funding constraints insurance cover was not obtained by the Institute.

#### Intercompany Account – K719,808

My review of the Intercompany Account, revealed that cheque number 434381 totalling K100,000 was paid to KIK on 22 January 2008, however, at the time of audit, this amount was still outstanding. I recommended Management follow up regularly to recoup the money or the Institute may provide for bad debts expenses over time. When the payments are made, the provisions can be reversed.

#### NPF Control Account – K140,918

Superannuation contributions for staff were not remitted to Nasfund on a timely basis, in which 95% of the contributions were carried forward from prior years. In addition, the balance did not have any listings or break up to substantiate it. The contribution is for the benefit of the Institute's employees and should be remitted on a timely basis under the provisions of the Superannuation Act.

#### Plantation Income Receipts – K1,356,863

My review of the receipting process of plantation income revealed that there was no segregation of duties among the receipting functions. Only one officer is responsible for receipting, updating of income ledger and banking. Income collected was not properly recorded and registered since there was no income register.

I further noted that delays in banking was a repeating issue as the Institute always prolong their banking of the income collected during the year. I raised these issues to Management and they responded that the Board had taken appropriate action to improve the situation.

#### Expenditure – Purchase Order Control

My review of the purchasing functions revealed that there were instances of requisitions being approved without authorised purchase orders. A purchase order is the control activity that allows the buyer to make the right purchasing decision in terms of the best value, right quantity and quality from reliable suppliers. Therefore, requisitions without accepted purchase orders may be easily vulnerable to fraud as it involves cash disbursement.

#### Repairs and Maintenance

The Institute paid K1,448,500 to Handa Holdings Limited for repairs and maintenance for four Institute houses at Tavilo. My review of the documentation revealed the following issues:

- \* The Institute did not publicly invite tenders and contracts for repairs and maintenance since the cost exceeded K300,000, as mandated under Section 39 (2) (a) of the PFMA. Instead, the Institute awarded the contracts internally to the company by way of "Letter Of Expression";
- \* The contract agreement prepared by the Institute did not specify the time frame and budget cost

for each building and the contract agreement did not have common seals of the Institute and Handa Holdings Limited;

\* Handa Holdings Limited did not have a current "Certificate of Compliance" (COC) from the IRC to show that the company is currently registered with the IRC. The Institute should have withheld ten percent or K144,850 of the total cost because Handa Holdings Limited did not have a current COC as stipulated by the IRC Act;

\* Invoices did not have proper documentation or break up of cost relating to material, labour and overhead costs incurred by the contractor. Thus, I could not confirm whether the invoices were genuine;

\* The inspection of three staff houses on which the repairs and maintenance work was done were incomplete and substandard. Independent assessments of the work were not undertaken before payments were made to the contractor. The Institute will still incur cost to complete the buildings; and

\* Payments made to the contractor were from the following accounts; Government Recurrent (K927,850), Merge Account (K425,650), Main Account (K40,000) and Coconut Levy (K55,000) from 2011 to April 2013. The Institute did not mention as to which bank account the money was budgeted for the repairs and maintenance.

I recommended to Management that in future any repairs and maintenance costs that are above K300,000 must go through the proper tender process. Unless the Institute has its own Tenders Board, the services of the Central Supply and Tenders Board shall be utilised since it is the authorised entity mandated under the PFMA where tenders shall be publicly invited for provision of contract services.

Travel Expenses – K1,501,528

The Institute did not maintain a Travel Advances Register for all duty travels and related expenses. This resulted in non-acquittal of public monies totalling K1,501,528, comprised of domestic (K1,443,272) and overseas (K58,256) travel expenses. Domestic travels should be acquitted within seven days after return and for overseas travel, fourteen days after return. As a result, I was unable to verify the validity of travel expenses disclosed in the financial statements.

Procurement Procedures

My review of the procurement process revealed that payments totalling K109,264 were made without obtaining three written quotations from different suppliers. The Institute is required to comply with the provisions of the PFMA. However, I observed that the Institute failed to comply with these requirements and committed funds without due care to economy, wastage and extravagant usage. I further noted that payments amounting to K86,844 had no proper supporting documents and as such I was unable to verify the validity and the correctness of these payments.

Petty Cash – K5,000

My examination of petty cash revealed that there is a control weakness relating to the process and procedures of handling petty cash. I noted that replenishment of petty cash was not properly approved by the Senior Accountant. I also noted variances between the general ledger and the remittance advice.

6.3 STATUS OF FINANCIAL STATEMENTS

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

## 7. COFFEE INDUSTRY CORPORATION LIMITED

### 7.1 INTRODUCTION

#### 7.1.1 Legislation

The Coffee Industry Corporation Limited was incorporated under the Companies Act as a company limited by guarantee and was conferred with statutory powers relating to the control and regulation of the production, processing, marketing and export of coffee by the Coffee Industry Corporation (Statutory Functions and Powers) Act 1991. Under this Act, the undertakings of the Coffee Industry Board, the Coffee Development Agency and the Coffee Research Institute were, on 1 October 1991, transferred to and vested in the Coffee Industry Corporation Limited. The members of the Corporation according to the Articles of Association are from the Growers Associations, the Coffee Exporters Association, the Plantation Processors Association, the Block Development Association, the Secretary – Department of Agriculture and Livestock, the Secretary – Department of Finance, and the Secretary – Department of Trade and Industry. The liability of each member is limited to an amount not exceeding one hundred kina.

#### 7.1.2 Functions of the Corporation

The principal functions of the Corporation are:

- \* To engage in research, extension, promotion, marketing, administration, management and control of the coffee industry in PNG;
- \* To act in the best interests of coffee producers; and
- \* To promote development of the coffee industry in PNG.

#### 7.1.3 Subsidiaries of the Corporation

The Corporation has a Fund and a subsidiary company, Coffee Industry Fund and Patana No. 61 Limited. Comments in relation to the Fund and the subsidiary are contained in paragraphs 7A and 7B respectively of this Report.

## 7.2 AUDIT OBSERVATIONS

### 7.2.1 Comments on Financial Statements

In accordance with the provisions of the Companies Act my report on the financial statements of the Corporation for the year ended 31 December 2012 was issued on 17 February 2014. The report contained a Qualified Opinion.

#### “BASIS FOR A QUALIFIED OPINION

Trade and Other Debtors – K1,798,508

Rent Receivables – K197,155



The financial statements disclosed K197,155 as rent receivables. A rental arrears of K94,024 was outstanding since 2007 and no evidence was made available whether action had been taken for the recovery. Also, I was not provided with all the lease agreements signed between the Coffee Industry Corporation (CIC) and the tenants and the complete schedule of the rent receivables. Further, some of the tenants vacated the property without settling their outstanding rents which have been outstanding for number of years.

Also, some of the lease agreements made available for my review had expired and some tenants paid rent more than that specified in the lease agreement. As such, I was unable to verify the accuracy of the rent receivable balance taken up as K197,155 in the financial statements.

Other Debtors - K1,320,475

A sum of K1,320,475 was taken up under other debtors. However, I was not provided with the detailed schedule and adequate source documentation of these receivables and their current status to verify the accuracy of the balance. Consequently, I was unable to ascertain the accuracy and completeness of the balance of K1,798,508 taken up as trade and other debtors as at 31 December 2012.

Inventories - K869,168

The value of the inventories for 2012 was same as last year. Further, my audit on the inventories in 2010 revealed that records on stock were not adequately maintained and some inventories did not have stock-cards to determine the accuracy of the stock. My request to provide the listing was also not provided for 2012 to determine the accuracy of the stock value.

Therefore, I was unable to ascertain the accuracy of the inventory value taken up in the financial statements as K869,168 for the year ended 31 December 2012.

Fixed Assets-K10,563,318

The assets depreciation schedule provided was not updated with details of serial numbers and the identity of the custodian for control purposes. Further, the general ledger balances of the cost values of the assets, accumulated depreciations and depreciation charges for the year could not be verified by me since the revised fixed assets register was not made available.

An amount of K769,487 which was shown as work in progress (WIP) since 2005, was included under land and buildings in 2011. However, I was unable to determine the valuation of this work in progress which is now included under land and buildings due to non-availability of necessary documentation.

The Corporation has no policy in place in respect of valuation of its land and buildings and was not revalued for more than seven to ten years. As per the International Accounting Standard S-16 Property, Plant and Equipment either the assets shall be carried at cost or at revaluation as per the policy of the organisation. Since the Corporation does not have a policy in this regard, I was unable to determine whether the value of total cost taken up in the financial statements is appropriate.

In the above circumstances, I was unable to determine whether the net assets of K10,563,318 had been appropriately depreciated, measured and accounted for at the year end.

Creditors and Accruals- K4,878,387

Group Tax - K1,590,245

Group tax payable to the IRC amounting to K1,590,245 was outstanding and accumulated over years. I was informed that this liability has now formed part of a debt servicing plan with the IRC. However, no documentation was made available for my review to verify the arrangements entered into with the IRC.

The payroll did not include all the contract allowances of motor vehicle, telephone, entertainment and housing for the contract officers in determining the respective employee's taxable income. Therefore, the salary and wages tax deducted and paid to the IRC was considerably less and these allowances were instead paid on monthly basis through cheque payment without tax being deducted. This practice is in violation of Income Tax Act 1959.

As such, I was unable to determine the appropriateness and completeness of the balance of K1,590,245 as group tax payable disclosed in the financial statements as at 31 December 2012.

Rental Bonds Payable - K73,953

The lease documents and schedules were not made available for my review to verify the accuracy of the amount of K73,953 taken up as rental bonds payable in the financial statements for the year ended 31 December 2012.

Business Withholding Tax- K206,081

An amount of K206,081 was disclosed as business withholding tax outstanding as at 31 December 2012. I was not provided with adequate documentation to determine when this tax was deducted for the contractors and when it became due to the IRC.

Also, I was unable to verify whether business withholding tax had been deducted from all the contractors and consultants who were providing service to the Corporation due to a lack of documentation.

Registration Fee - K331,759

Registration fees from the coffee processors and exporters for the following year were collected in advance in the current financial year. However, the registration fees collected in 2011 for 2012 was not reversed in the current financial year and was still shown as payable. Further, the registration fees collected for 2013 in 2012 was taken up as registration fee for 2012 in the income statement, which is not correct. As such, I was unable to determine the accuracy of the registration taken up as payable in the financial statements as well the registration fee shown as income in the income statement for the year ended 2012.

Nasfund Clearing Account - K21,980 (Dr) / Salaries and Wages Clearing Account - K128,154 (Cr)

These clearing accounts were meant for salary deductions made and paid to concerned service providers and should have either nil balance or credit balances at the year end. However, these

accounts show debit balances as at 31 December 2012 which is not appropriate. Therefore, I was unable to verify the accuracy of these balances as shown in the financial statements under trade creditors and accruals.

Goods and Service Tax Payable (GST) – K304,892

The financial statements disclosed K4,878,387 as Creditors and Accruals of which K304,892 was GST payables. This amount was the final adjusted amount of GST receivables and GST payables of the Coffee Industry Corporation (CIC) and the Coffee Industry Fund (CIF) which were accumulated from 1999 to 2012. The Corporation provided some documentation of its own adjustment journals and IRC statements for my review. However, no proper reconciliation has been done between these records and provided for my verification to determine its accuracy.

Further, the documentation provided by the IRC did not include the GST returns filed by CIC for the period October 2006 to December 2010 in deriving the above GST balance.

Therefore, I was unable to ascertain the accuracy of the GST payables balance taken up as K304,829 in the financial statements as at 31 December 2012.

Employee Provisions (Current) – K106,810; (Non-current) – K593,595

I was not provided with the detailed break-up listing or proper schedules of the accrued long service leave and annual leave as at 31 December 2012 to enable me to verify the accuracy and appropriateness of the balances disclosed in the financial statements.

Further, these leave provisions were the same for 2010 and 2011 financial years and no movement was noted in the respective accounts. Therefore, the employee's provision was understated in the financial statements for the financial year.

Consequently, I was unable to determine the appropriateness of the balance of K4,873,387 taken up as creditors and accruals in the financial statements as at 31 December 2012.

Income and Expenditure Statement– K842,614 (Loss)

Rental Income – K1,056,811

The Corporation did not provide me a complete schedule for all its rentals received during the year to determine the completeness of the income received. Also, all the lease agreements were not made available for me to verify the accuracy of the rental income taken up in their books.

In the above circumstances, I was unable to ascertain the accuracy of the balance of K1,056,811 taken up as rental income as at 31 December 2012.

## QUALIFIED OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the qualification paragraphs:

(a) The financial statements of the Coffee Industry Corporation Limited:

- (i) Give a true and fair view of the state of affairs of the Corporation as at 31 December 2012, the results of its operations and the cash flows for the year then ended; and
  - (ii) Comply with the Companies Act, International Financial Reporting Standards and other generally accepted accounting practices in PNG.
- (b) Proper accounting records have been kept by the Coffee Industry Corporation Limited as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required except for the matters referred to in the qualification paragraphs.

## EMPHASIS OF MATTER

### Status of the Coffee Industry Corporation Limited

Audit was provided with the copy of the Coffee Industry Corporation (Statutory Functions and Powers) Act 1991 and according to this Act, the Coffee Industry Corporation was a Corporation and not a "Limited Company". Unless Parliament by an Act or amended the existing Act to corporatise the Coffee Industry Corporation the word "Limited" used by the Corporation is not appropriate. My request to provide the amended Act was not made available for review to determine the appropriateness of incorporating this Corporation under the Companies Act.

### 7.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2012 was issued on 17 February 2014. The report contained the following issues:

#### Salaries and Allowances

The Corporation's senior officers were paid accommodation and motor vehicle allowances in accordance with their contracts of employment in full without deducting appropriate taxes as per the Income Tax Act. I was informed that an accounting firm advised the Corporation to pay the allowances in full and the respective officers to lodge their annual returns with the IRC.

My review of the advice revealed that unless a variation has been obtained from the IRC by the respective officers, both housing and motor vehicle allowances must be fully taxed. I brought this to the attention of Management and it responded that "a tax consultant is assisting management in this area and we will improve this aspect of compliance going forward. This has generally been overlooked over the years to date. It is possible to get variation approval from the IRC and get taxed at the prescribed taxable values. The management undertakes to review and make necessary decision and/or seek the Board's endorsement to appropriately deal with salary or wages tax not deducted and paid when paying the allowances."

My view continues to be that without evidence of tax variations approved by the IRC, officers receiving such allowances must be fully taxed.

#### Inventories

The operation of internal control over inventories was inadequate. My stock-take attendance in 2010 revealed that records of movements of inventories were not properly maintained. Officers

responsible for recording the movements of the stock did not update the stock-cards and some did not maintain these cards. No monthly stock-take was conducted.

The values of the stock-take was not recorded at cost or net realisable value whichever is less in accordance with the CIC Financial Procedure Manual, and to that extent the value may be overstated in the financial statements.

I brought this to the attention of Management and it responded that “management will review the inventory management system and improve as per audit advice. We have recruited and will soon fill the position of assistant accountant in Aiyura. We envisaged the incumbent will be stationed there in 2013 and thereafter see improvements in the operation of internal controls towards inventory management.”

#### Coffee Export Levy – K4,761,644

The Corporation collects levy from the coffee exports as empowered by the Coffee Industry Corporation Act. However, the act of determining the levy amount receivable by the Coffee Industry Corporation Board was not gazetted as required by Section 7(2) of the Act. As such, the appropriateness of charging the levy could not be verified. I brought this to the attention of Management and it responded that they “have taken this matter to the Board for endorsement for gazettal of levy and registration fees for the purpose of legal validity.”

#### Goods and Services Tax

The Goods and Services Tax (GST) applied on the coffee export levy was below the approved 10% as per the GST Act 2003. The Corporation has to ensure that it complies with the relevant legislation.

#### Personnel Records

The personnel files of the Corporation were not maintained adequately to determine their liability at a given point of time. Also, the leave records and other important correspondences like salary increment and appraisals were not available in the files.

Further, most of the contract officers’ contracts were not current or not located in their personnel files. I brought this to the attention of Management and it responded that “the HR/ Personnel and administration department maintains all personnel files at CIC. For contract officers their contracts are under review for signing and copies will be filed in personnel files. We will improve on the management and upkeep of personnel files for future audit observation and review and have tasked the personnel section to improve on this area.”

### 7.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 31 December 2013 had been submitted and the audit will commence shortly.

## 7A. COFFEE INDUSTRY FUND

### 7A.1 INTRODUCTION

The Coffee Industry Corporation (Statutory Functions and Powers) Act 1991 provided for the establishment of the Coffee Industry Fund (CIF). The main purpose of the Coffee Industry Fund is to stabilise the coffee industry by giving the Coffee Industry Corporation the financial ability to implement schemes relating to stabilisation and equalisation of coffee prices and stock holdings of coffee.

## 7A.2 AUDIT OBSERVATIONS

### 7A.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Fund for the year ended 31 December 2012 was issued on 17 February 2014. The report contained a Qualified Opinion.

#### “BASIS FOR A QUALIFIED OPINION

Other Debtors and Prepayments– K185,425

Interest Withholding Tax – K12,301

The Coffee Industry Corporation (CIC), as a non-limited company, and the Coffee Industry Fund (CIF) are exempt from income tax under Section 27(c) of the Income Tax Act 1959 and therefore not subject to Interest Withholding Tax (IWHT) under Section 186 (4) (a) of the Income Tax Act.

However, the interest withholding tax was deducted from the interest received on the interest bearing deposit since the Coffee Industry Corporation (CIC) was incorporated as a limited company. In 2012, IWHT deducted was K12,301. In 2011, IWHT amounting to K52,321 was deducted and transferred to the CIC without any explanation. Also, the IWHT amount of K52,548 deducted up to 2008 and a total of K14,293 deducted in 2011 were neither taken up in the CIF nor the CIC books.

Consequently, I was unable to ascertain whether it is appropriate to have the IWHT deducted or to comment on the accuracy and completeness of the balance receivable as at 31 December 2012.

Short-Term Loan – K173,124

The loan documents were not made available for my review. As a result, I was unable to determine the terms and conditions of this loan and its repayment schedule. Further, a current asset should be receivable within one year. However, this amount remained outstanding for more than one year and is still treated as a current asset which is not appropriate.

Coffee Industry Fund

Therefore, I was unable to confirm the status of the loan balance.

#### QUALIFIED OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the Basis for Qualified Opinion paragraphs, the financial statements of the Coffee Industry Fund for the

year ended 31 December 2012:

(a) Give a true and fair view of the financial position and the results of its operations for the year then ended; and

(b) The financial statements have been presented in accordance with the PFMA, International Financial Reporting Standards and other generally accepted accounting practices in PNG.”

## 7A2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the audit and inspection of the accounts and records of the Fund for the year ended 31 December 2012 was issued on 17 February 2014. The report contained the following observation.

Revenue – Interest Income – K82,009

Interest Bearing Deposit Certificate (IBD) was not made available for my review. I was therefore unable to verify the accuracy, correctness and completeness of the interest received monthly as I was relying only on the bank statements and the interest income schedule provided.

I highlighted that unless adequate and appropriate source documents are maintained for all investments, the exact amount of investment and the interest earned on the IBDs could not be accurately determined and accounted for in the books. I also pointed out that the Corporation may lose the interest income earned if Management is not making sound investment decisions as to ensure more return on capital. I brought this to the attention of Management and they responded that “We note your observation and comments in relation to the IBD monthly certificate confirmation and will request the ANZ Bank to provide us monthly certificates in future. We advise also that we will update our Investment Register after we obtain Board approval on Investment options.”

## 7A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Fund for the year ended 31 December 2013 had been submitted and arrangements were in progress to commence the audit without delay.

7B. PATANA NO. 61 LIMITED (Subsidiary of Coffee Industry Corporation Limited)

### 7B.1 INTRODUCTION

Patana No. 61 Limited was incorporated under the Companies Act. The Company was acquired by the Coffee Industry Corporation Limited on 10 February 1994 and has a total issued capital of two ordinary shares of K1.00 each. The Company is wholly owned by the Coffee Industry Corporation Limited. The principal activity of the Company is to invest in property.

### 7B.2 AUDIT OBSERVATIONS

#### 7B.2.1 Comments on Financial Statements

My report to the members of Patana No. 61 Limited in accordance with the provisions of the Companies Act on the financial statements for the year ended 31 December 2012 was issued on 17th February 2014. The report contained a Qualified Opinion:

## “BASIS FOR A QUALIFIED OPINION

### Fixed Assets – K591,090

The Company has not maintained a Fixed Assets Register to enable me to verify the measurement and completeness of the assets, its present status and the accuracy of the depreciation claimed on these assets for the year ended 31 December 2012. Further, the assets purchased over the years by the parent company (CIC) for use by the company (Patana No. 61 Limited) were accounted for in the parent company’s Fixed Assets Register, which is not proper accounting treatment.

In the above circumstances, I was unable to determine the measurement of the assets and the accuracy of the depreciation claimed on these assets and the net value of the fixed assets stated as K591,090 in the financial statements for the year ended 31 December 2012.

### Inter-Company Loan – K806,393

I was not provided with the loan agreement entered into between the Company and the parent organization (CIC) to verify the terms and conditions of the loan and the repayment schedule. There was no movement in the loan amount since the loan was obtained from the parent entity.

I was therefore unable to ascertain the validity and accuracy of the loan amount disclosed as K806,393 in the financial statements at 31 December 2012.

### Patana No. 61 Limited

#### Going Concern

The financial statements are prepared on a going concern basis. However, the Company has not generated any income since being incorporated except claiming only depreciation on the fixed assets and also disclosed a negative balance of K215,305 as reserves.

I was also not provided with any documentary evidence that the parent Corporation will provide all the necessary financial support for its continued operation.

In the above circumstance, I was unable to determine the appropriateness of preparing the financial statements on a going concern basis.

#### Non-Compliance of International Financial Reporting Standards

The financial statements did not include the Cash Flow and the Changes in Equity Statements which are mandatory. As a consequence, the Company did not comply with the International Financial Reporting Standards, Presentation of Financial Statements (IAS-1) and Statement of Cash Flows (IAS-7).

### Operating Loss – K8,257

No rental income was received from the tenants occupying the Company’s facilities (units and houses) for the year. I was informed that CIC officers were occupying these properties but no rents had been collected from the occupants. Alternatively, no lease rentals were paid by the parent organisation (CIC).

This practice of rent free accommodation provided to another entity is not a sound business



practice. Once a company is incorporated it becomes a legal entity doing commercial business and as such, it should be operating on its own to generate income and meet its expenses and determine whether any profit or loss is made for the year.

Consequently, I was unable to ascertain the appropriateness of the business practice followed by the Company and disclosing a business loss of K8,257 on account of providing depreciation on its fixed assets for the year ended 31 December 2012.

## QUALIFIED OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the qualification paragraphs:

- (a) The financial statements of Patana No. 61 Limited for the year ended 31 December 2012:
- (i) Give a true and fair view of the financial position and the results of its operations for the year ended on that date; and
  - (ii) The financial statements have been presented in accordance with the Companies Act, International Financial Reporting Standards and other generally accepted accounting practices in PNG.

### Patana No. 61 Limited

- (b) Proper accounting records have been kept by Patana No. 61 Limited as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required except for the matters referred to in the qualification paragraphs.”

### 7B.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the audit and inspection of the accounts and records of the Company for the year ended 31 December 2012 was issued on 17 February 2014. The report contained the following observation.

#### Investment Promotion Authority Documents

I was not provided with the annual returns filed with the IPA for the financial years 2010 and 2011 as well as various forms needed to be filed in respect of appointment/change of the new Directors. I brought this to the attention of Management and it responded that “Management notes your comments and will provide the copies of relevant Forms and Annual Returns filed with the Registrar of Companies during 2013 audit.”

### 7B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the Company for the year ended 31 December 2013 had been submitted and arrangement was in progress to commence the audit without delay.

## 8. GOVERNMENT PRINTING OFFICE

### 8.1 INTRODUCTION

The Government Printing Office was established by the British Colonial Administration in 1888.

The functions of the Printing Office is empowered by Section 252 of the Constitution, Interpretation Act (Chapter 2) and Printing of the Laws.

### 8.1.1 Objective of the Office

The main objective of the Government Printing Office is to provide efficient and quality printing services to the executive arm of the government, judicial arm of the government, government departments and various statutory bodies at an affordable cost.

## 8.2 AUDIT OBSERVATIONS

### 8.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Printing Office for the years ended 31 December 2010 and 2011 were issued on 25th March 2014. The reports contained similar Basis for Disclaimer of Opinion, hence only the 2011 audit report is reproduced.

#### “BASIS FOR DISCLAIMER OF OPINION

##### Limitation on the Scope of my Audit

Due to the disclaimer of opinion issued in respect of the year ended 31 December 2010, I was unable to satisfy myself as to the accuracy of the opening balances. I was also unable to quantify the effects of misstatements, if any, which might have a bearing on the results of the operations of the Printing Office. As such, I was unable to form an opinion regarding the reliability of the financial records maintained by the Printing Office and the closing balances stated in the financial statements.

##### Trade Debtors – K4,479,977

My review of the Trade Debtors balance of K4,479,977 revealed that much of 2008, 2009 and 2010 balances still remained outstanding. I was unable to verify the prior period debtors due to lack of relevant information. Further, no provisions for possible bad debts were made by Management for the long outstanding debts. As such, I was unable to satisfy myself as to the accuracy and completeness of the trade debtors balance at the year end.

##### Government Printing Office

##### Property, Plant and Equipment – K3,174,658

My review of the Fixed Assets Register showed that the register was not properly maintained and updated showing additions and disposal of assets during the year with supporting documentation.

Further, there was no stock-take undertaken at year end to confirm the existence and valuation of the assets held at year end. As such, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K3,174,658 at year end.

Revenue – K8,807,746

The revenue balance of the Printing Office stated at year end was K8,807,746, (2010: K3,997,046) 120 percent higher than 2010. However, my review of the revenue account revealed that there was no audit trail available for verification. There was no correlation between job records, general ledger, and the inward cash register maintained by the Printing Office and the bank statements. Accordingly, I was unable to execute all my planned audit procedures. I have in past audit reports emphasised to Management the importance of this account but again no improvements have been made. As such, I was unable to conclude on the accuracy and valuation of the revenue balance of K8,807,746 disclosed in the financial statements.

#### Government Grants

My review of this account showed that permanent staff salaries and allowances of the Printing Office paid by the Government's Alesco Payroll System under the Department of Prime Minister and National Executive Council were not disclosed in the financial statements at year end. Consequently, income and salaries and wages for the year were understated.

#### Provision for Long Service and Recreation Leave

The Government Printing Office did not disclose long service and recreation leave provisions for the permanent staff in its financial statements. There were no records in relation to personnel leave credits that was managed by the Printing Office. Without such records, I was unable to ascertain whether payments in relation to leave credits were properly calculated.

#### DISCLAIMER OF OPINION

Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of Government Printing Office for the year ended 31 December 2011."

#### Government Printing Office

##### 8.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Printing Office for the years ended 31 December 2010 and 2011 were issued on 25 March 2014. The reports contained the same observations, hence only the 2011 report is reproduced.

#### Government Printer's Contract of Employment

My review and examination of personnel records for the year ended 31 December 2011 revealed that the Government Printer's Contract of Employment expired in April 2008. The Government Printer from May 2008 to September 2013, a period of more than five years, was employed by the State under the Department of Prime Minister and NEC without a valid Employment Contract.

#### 8.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Government Printing Office had not submitted its financial statements for the years ended 31 December 2012 and 2013 for my inspection and audit.

## 9. INDEPENDENCE FELLOWSHIP TRUST

### 9.1 INTRODUCTION

#### 9.1.1 Legislation

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

#### 9.1.2 Objective of the Trust

The object of the Trust is to benefit village development by making annual awards to selected citizens for the purposes of broadening their knowledge and experience, as well as implementing and encouraging that development.

#### 9.1.3 Functions of the Trust

The functions of the Trust are to:

- \* Make selections of candidates to receive the awards of fellowships;
- \* Determine the number and value of awards; and
- \* Invest the funds of the Trust.

## 9.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December 2012 and 2013 had not been submitted by the Trust for my inspection and audit despite numerous reminders.

## 10. INDEPENDENT CONSUMER AND COMPETITION COMMISSION

### 10.1 INTRODUCTION

#### 10.1.1 Legislation

The Independent Consumer and Competition Commission was established by the Independent Consumer and Competition Commission Act 2002. The Act came into operation in January 2003.

#### 10.1.2 Functions of the Commission

The main functions of the Commission are:

- \* To formulate and submit to the Minister policies in the interest of consumers;
- \* Consider and examine and, where necessary, advise the Minister on the consolidation or updating of legislation providing protection to the consumer;
- \* Liaise with Departments and other agencies of Government on matters relating to consumer protection legislation;
- \* Receive and consider complaints from consumers on matters relating to the supply of goods and services;

- \* Investigate any complaint received;
  - \* Make available to consumers general information affecting the interests of consumers;
  - \* Liaise with business, commercial and professional bodies and associations in order to establish codes of practice to regulate the activities of their members in their dealings with consumers;
  - \* Advise consumers of their rights and responsibilities under laws relating to consumers protection;
  - \* Promote and participate in consumer education activities;
  - \* Establish appropriate systems whereby consumer claims can be considered and redressed;
  - \* Liaise with consumer organisations, consumer affairs authorities and consumer protection groups overseas and to exchange information on consumer issues with those bodies;
  - \* Arrange for the representation of consumers in court proceedings relating to consumer matters;
- and
- \* To do all other things relating to consumer affairs.

## 10.2 AUDIT OBSERVATIONS

### 10.2.1 Comments on the Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the financial statements for the year ended 31 December 2013 was issued on 4th April 2014. The report did not contain any qualifications.

#### Independent Consumer and Competition Commission

### 10.2.2 Audit Observations Reported to the Ministers

In accordance with Section 8 (2) of the Audit Act, I have a duty to report on significant matters arising out of financial statements to which this Report relates. The Report did not contain any significant matters.

## 11. INDEPENDENT PUBLIC BUSINESS CORPORATION

### 11.1 INTRODUCTION

#### 11.1.1 Legislation

The Independent Public Business Corporation (IPBC) was established under the Independent Public Business Corporation of Papua New Guinea Act 2002 (as amended) which came into operation on 27 March 2002.

The above Act was amended through the Independent Public Business Corporation of PNG (Amendment) Act 2007 at which time the objectives and functions of the Corporation were changed.

A major impact of the amendments made was that the Corporation, the Trusts, the State Owned Enterprises or any other enterprises in which the Corporation, the Trusts or a State Owned Enterprise holds any interest shall not be subject to the PFMA. The amended Act also excludes the Corporation from the application of the Public Services (Management) Act 1995 and the SCMC Act.

These amendments came into operation on 8 June 2007.

### 11.1.2 Objectives of the Corporation shall be:

- \* To act as trustee of the Trust and hold assets and liabilities that have been vested in or acquired by it, on behalf of the State;
- \* To act as a financial institution for the benefit of and the provision of financial resources and services to State Owned Enterprises and the State, where this is approved by the NEC;
- \* To enhance the financial position of the State or State Owned Enterprises; and
- \* To enter into and perform financial and other arrangements that in the opinion of the Corporation have as their objective either:
  - The advancement of the financial interests of the State or State Owned Enterprises; or
  - The development of the State or any part thereof.

### 11.1.3 Functions of the Corporation

- \* The Corporation shall administer the Trusts and monitor the performance of the assets of the Trusts in such manner as provided under this Act and shall perform such other functions as are required under this Act.
- \* Without limiting the generality of Subsection (1) but subject to the provisions of this Act, the Corporation may:
  - ? Undertake the function of holding and monitoring corporation for State owned assets and Majority State Owned Enterprises;
  - ? Undertake the function of planning, coordinating and managing State assets, infrastructure and projects;
  - ? Determine policies regarding:

### Independent Public Business Corporation

- ? The conduct of its affairs and the affairs of any of the Trusts; and
- ? The administration, management and control of the Corporation and any of the Trusts.
- ? May borrow, raise or otherwise obtain financial accommodation in PNG;
- ? May advance money or otherwise make financial accommodation available to the State or State Owned Enterprises;
- ? May act as a central borrowing and capital raising authority for State Owned Enterprises;
- ? May act as agent for State Owned Enterprises in negotiating, entering into and performing financial arrangements;
- ? May provide a medium for the investment of funds of State Owned Enterprises;
- ? May manage or cause to be managed the Corporation's financial rights and obligations; and
- ? Such other functions and duties as are prescribed by the Act or any other Act.

### 11.1.4 Subsidiaries of the Corporation

The subsidiaries of the IPBC are Aquirus No. 21 Limited, General Business Trust, PNG Dams Limited and Port Moresby Private Hospital Limited. Comments in relation to these subsidiaries are contained in paragraphs 11A, 11B, 11C and 11D of this Report.

### 11.1.5 Projects of the Corporation

The IPBC manages Japanese Fund for Poverty Reduction Project and Lae Port Project. It also implements the Port Moresby Sewerage and Supply Upgrading Project. Comments in relation to these Projects are contained in the Special Project Audits Report to Parliament.

## 11.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2012 was completed and the Management Letter was issued on 2 May 2014. However, the responses to the Management Letter and the signed financial statements were not provided to enable me to issue the Report.

The Corporation had submitted its financial statements for the year ended 31 December 2013 and arrangements were being made to commence the audit shortly.

### 11A. AQUARIUS NO.21 LIMITED (Subsidiary of IPBC)

#### 11A.1 INTRODUCTION

##### 11A.1.2 Legislation

Aquarius No. 21 Limited was incorporated under the Companies Act. It was acquired by the Motor Vehicles Insurance (PNG) Trust, now Motor Vehicles Insurance Limited in 1998.

The objective of Aquarius No. 21 Limited is to purchase property to improve, develop, sell and let any part thereof where necessary.

The Company was transferred to the General Business Trust on 2 August 2002 as per the Settlement Deed between the Independent Public Business Corporation (IPBC) and the Motor Vehicles Insurance Limited (MVIL) dated 3 April 2002.

#### 11A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2011 and 2012 had been completed and the signed financial statements were being awaited from the Company, despite reminders to enable me to issue the reports.

The financial statements for the year ended 31 December 2013 had not been submitted for my inspection and audit.

### 11B. GENERAL BUSINESS TRUST (Trust under IPBC)

#### 11B.1 INTRODUCTION

The General Business Trust was established under Section 31 of the Independent Public Business Corporation of PNG Act 2002 which came into operation on 20 June 2002.

##### 11B.1.1 Objectives of the Trust

\* The Independent Public Business Corporation of PNG (IPBC) was appointed as Trustee of the Trust and all moneys belonging to the Trust shall be invested or dealt with by IPBC in accordance with the Act;

\* At any time before or after the commencement date of the Act, the Minister responsible for

privatisation matters may vest certain assets and liabilities in the IPBC as Trustee of the Trust;  
\* All the State Owned Enterprises and other investments owned by the State of PNG are vested in the Trust by the Minister responsible for privatisation as approved by the NEC from time to time.

## 11B.2 AUDIT OBSERVATIONS

### 11B.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Trust for the year ended 31 December 2012 was issued on 14 May 2014. The report contained a Qualified Opinion.

#### “BASIS FOR A QUALIFIED OPINION

##### Unquoted Equity Investments

Unquoted equity investments under non-current assets in the financial statements were disclosed as K2,114,631,795. From this balance, a total of K360,895,128 was classified as other investments. However, I was not provided with the audited financial statements of a number of these entities classified as other investments.

Furthermore, some of these investments did not exist but were still included in the financial statements. Some of these investment values have remained unchanged over the years. My request to provide the audited financial statements of these entities was not addressed by the Trustee.

Therefore, I was unable to ascertain the accuracy of the balances classified as other investments in the financial statements as at 31 December 2012.

#### QUALIFIED OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the qualification paragraphs:

- (a) The financial statements are based on proper accounts and records; and
- (i) Give a true and fair view of the state of affairs of the Trust as at 31 December 2012 and the results of its financial operations, the change in equity and its cash flows for the year then ended; and
- (ii) Comply with the International Financial Reporting Standards and other generally accepted accounting practices in PNG.
- (b) Proper accounting records have been kept by General Business Trust as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required except for the matter referred to in Emphasis of Matters.

#### EMPHASIS OF MATTERS

Without qualifying my opinion I wish to draw attention to the following matters which I consider significant:

Related Party Receivables: Loan to National Petroleum Company of PNG (Kroton) Limited (NPCP) (formerly Kroton No. 2 Limited) – K2,720,409,942 (2011: K1,959,803,971)



A total of K2,720,409,942 was disclosed as related party receivables in the financial statements. Of this amount, a total of K2,685,318,343 was the amount paid to Exxon Mobil on behalf of the National Petroleum Company of PNG (Kroton) Limited (NPCP) from 2009 to 2012. Furthermore, a total of K20,529,000 in 2010 and K14,562,599 in 2011 was paid towards operational expenses of NPCP. NPCP holds the PNG Government's 16.57% stake in the PNG LNG project. The IPBC Board resolved that these amounts be considered as a loan and shall be paid back once revenue starts flowing from the project. However, a copy of the signed loan agreement was not made available for my review to determine the conditions attached to the loan.

I was provided with four NEC Decisions, which were: Decision No.88/2010 dated 12 May 2010; Decision No.108/2011 dated 7 July 2011; Decision No.105/2011 dated 14 November 2011, and finally Decision No. 18/2013 dated 30 January 2013 which reaffirmed the revival of NPCP which was decided through the earlier NEC Decisions No. 88/2010 dated 12 May 2010 and NEC Decision No.108/2011 dated 7 July, 2011.

As per Clause 8 of the NEC Decision No.108/2011 that all the payments made by IPBC to NPCP (Kroton) towards the PNG LNG Project shall be treated as equity by IPBC and not as a loan. Also, as per Clause 9 of the above decision, the cost of capital borne by IPBC towards funding arrangements associated with the International Petroleum Investment Corporation (IPIIC) Exchangeable bonds are to be borne exclusively by IPBC and not to be recharged to any member of the NPCP Group.

However, all the contributions including the cost of capital towards the LNG project were treated as a loan by IPBC in the books, which is contrary to NEC Decision No. 108/2011.

Consequently, I was unable to determine the correctness of recording K2,720,409,942 as a receivable from NPCP as at 31 December 2012.

Exchangeable Bonds – K3,652,759,670 (2011: K3,632,238,547)

I draw your attention to the exchangeable bonds disclosed under non-current liabilities which amounted to K3,652,759,670. This liability is payable to International Petroleum Investment Company (IPIIC), Abu Dhabi resulting from the raising of AUD\$ 1.681billion (K3.183 billion) in 2009 in exchangeable bonds. The bonds mature in 2014 by exchange of the Oil Search Limited (OSL) shares owned by the State. This amount was raised towards financing the State's 19.6% stake in the PNG LNG Project. The value of the Oil Search shares as at 31 December 2012 was only AUD\$1.378 billion (K3,013,107,304) and therefore, an additional amount of AUD\$302,804,720 (K662,014,942) would have been payable by IPBC if the bonds had been redeemed or had been exchanged as per the Bond Deed Poll of the Exchange Bonds agreement at the balance sheet date.

However, on 5 March 2014, IPIIC exercised the option of exchanging the bonds for Oil Search Shares by giving a mandatory notice to IPBC. As a result, all the Oil Search ordinary shares amounting to 196,604,177 were transferred to IPIIC at a value of AUD\$8.395 per share as per the average valuation of IPIIC and IPBC calculation agents, BNY Trust Company of Australia Limited and Royal Bank of Canada in pursuant of the Deed Poll conditions of the bonds. As a result of this exercise, IPBC had paid additional AUD\$30,507,935 to IPIIC.

IPIIC had further claimed that the valuation should be as per their valuation agent's determination which is AUD\$8.19 per share and claimed an additional amount of AUD\$40,303,856.

IPBC and IPIC have since agreed to settle this matter in court and the disputed amount is to be kept in a separate escrow account until the final decision is reached by the court.

### Investments in PNG Series II and PNG Series III Notes

In Note 12 to the financial statements under non-current investments, it is disclosed that the investments in PNG Series II and III Notes had lost K13.629 million and K4.745 million (as per 2011 figures) respectively. Management of the Trustee, IPBC invested K15.0 million (AUD\$5,920,500) in PNG Series II on 01 June 2007 through BSP Capital Limited in Lehman Brothers.

Again, on 21 September 2007 Management invested K16.0 million (AUD\$6,250,000) in PNG Series III Notes in Lehman Brothers through BSP Capital Limited, without proper evaluation on the overseas money market and without the IPBC Board consent. In September 2008 Lehman Brothers filed for bankruptcy in the United States as a result of the global financial crisis which in turn reduced the investment value by AUD\$9 for each AUD\$100 Note on PNG Series II Notes.

Likewise, on 27 April 2009 the investment value of PNG Series III Notes had also reduced to AUD\$70 for each AUD\$100 Note.

Further, in Note 6 to the financial statements under miscellaneous income, it is disclosed that a gain of K10,463,805 had been made on disposal of the BSP notes. However, as per the documents made available, BSP Capital Limited and BSP Limited entered into a deed of settlement dated 30 November 2012 with the IPBC and paid K23,090,111 as final settlement towards PNG Notes II and PNG Notes III. As such, IPBC had incurred K7.9 million as an investment loss as well as a revenue loss of K4.5 million at 2.5% Treasury notes for the period 2008 to 2012.

I am concerned that the Trustee had not done proper evaluations and failed to obtain the Board's approval before the investments were made. In my view, investments in overseas financial or money markets are not the core purpose of the establishment of the Trust. Further, I still believe that the funds vested with the Trust and managed by the Trustee (IPBC) are owned by the State although the amendments made to the Independent Public Business Corporation Act specifically excluded compliance with the PFMA. Management still needed to seek the necessary approval from the Board before making investment decisions in overseas money markets and the sale of assets vested with the Trust. Therefore, the Board needs to bring in an adequate and appropriate corporate governance regime in the management and affairs of the Trust fund which I believe is lacking at present.

### Non-Compliance of Kumul Agreement

As per the Kumul Agreement entered into between the IPBC and IPIC for the borrowing of AUD\$1.681 billion for financing the PNG State's share of 19.6% towards the PNG LNG Project, the audited financial statements of the General Business Trust should be submitted to IPIC by 30 June of the following year for the previous year ended. Also, the audited financial statements of the National Petroleum Company (Kroton) Limited (NPCP), the Subsidiary and vehicle company for the LNG Project for 2011 and 2012 were outstanding for twenty-two months and ten months respectively at the time of issuing this Report. The Corporation has not complied with this agreement by non-submission of the financial statements of General Business Trust and NPCP on time to enable me to issue the report as stipulated in the agreement."

## 11B.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Trust for the year ended 31 December 2012 was issued on 14 May 2014. The report contained the following observations.

### Sale of State Owned Assets without National Executive Council Approval

Several assets were sold between 2004 and 2011 totalling K5,591,741 without obtaining written NEC approval as required under Section 9(b)(1A) of the Independent Public Business Corporation Act.

When the matter was brought to the attention of Management, they advised that, “as far as we are aware this was more of a commercial decision taken by the Management of IPBC over the last 10 years. We are unable to sight any specific NEC decisions to support these sales.”

### Loan to Post PNG Limited K12.5 million

The IPBC Board in its Board Meeting No.2/2009 dated 20 August 2009 approved the loan repayment of K12.5 million to the Bank of South Pacific (BSP) on behalf of Post PNG (the borrower of the loan). This loan refund was part of Post (PNG)'s total loan of K36.0 million borrowed from BSP for its new investments in properties in Lae. Further, as per the Board Meeting No.4/2012 dated 16 August 2012, the refund of the BSP loan by IPBC was a loan to Post (PNG) Limited and should be refunded to IPBC on completion of sale of Haus Post Boroko. However, the loan refunded by IPBC on behalf of Post (PNG) Limited as at 31 December 2012 amounting to K14,166,667 was capitalised. No documentation was made available to verify if it was appropriate to capitalise K14,166,667 paid by IPBC in 2010, 2011 and 2012 towards this loan repayment.

Further, audit was informed that Post PNG could not repay the balance of the loan and therefore IPBC is now repaying the outstanding loan towards the borrowing. It appears that Post PNG had entered into new capital expenditures without a proper evaluation of their financial capacity and depended on IPBC for the bailout. It would be appropriate that IPBC should bring a total ban on new projects by all the SOEs unless approved by the NEC.

I brought this to the attention of Management and they advised that the “former Chief Financial Officer of IPBC has no authority as he mentioned in his letter to Post (PNG) Limited that it would be treated as capital.”

### Investment Corporation of Papua New Guinea

This Corporation was vested with IPBC in pursuant to Gazettal Notice No.33 dated 06 April 2004. The value of this property was taken up in the financial statements as K8,660,957 for the last eight years. The conditions attached with the vesting notice was not to use the GBT assets (money) for the disposal of remaining assets and settle the liabilities and submit all the outstanding financial statements to my office to enable me to complete the audit and issue the reports. However, my repeated request to provide financial statements for the years since 2002 was not responded to positively by the respective Management during these years. I brought this to the attention of Management and they advised that “2001 files have been archived and files passing 7 years in archived have been destroyed and very difficult to retrieve old records.”

## Investments in Niugini Insurance Corporation Limited (NIC)

The NIC was corporatised and the business was transferred to Pacific MMI Insurance Limited in 1998 except for the insurance liability and assets attached with the liabilities remaining with the Corporation. However, in 2010 IPBC informed my office that they filed an application for deregistration of the company but no documentation was made available for my review to determine the appropriateness of the claim.

I brought this to the attention of Management and they advised that “We have not been able to find the relevant documentation and forward to your office as and when we are able to locate them.”

### 11B.3 STATUS OF THE FINANCIAL STATEMENTS

At the time of preparing this Report, the Trust had submitted its financial statements for the year ended 31 December 2013 and the audit will commence shortly.

## 11C. PNG DAMS LIMITED (Subsidiary of IPBC)

### 11C.1 INTRODUCTION

#### 11C.1.1 Legislation

PNG Dams Limited was incorporated under the Companies Act on 5 June 2002. This Company was established under Section 3(1) of the Electricity Commission (Privatisation) Act 2002 (the ‘Act’) by transferring to it the Sirinumu Dam and Yonki Dam from PNG Electricity Commission (ELCOM). This was gazetted through Gazettal Notification No. G114 dated 16 July 2002. The Company was vested with the IPBC through the Gazettal Notification No. G125 dated 2 August 2002.

#### 11C.1.2 Objective of the Company

The objective of the Company is to store water in the two dams for the controlled release of water from the storage for the generation of electricity.

### 11C.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2012 had been completed. The signed financial statements were not submitted by the Company to enable me to issue the report, despite several reminders.

The financial statements for the year ended 31 December 2013 had not been submitted for my inspection and audit.

## 11D. PORT MORESBY PRIVATE HOSPITAL LIMITED (Subsidiary of IPBC)

### 11D.1 INTRODUCTION

#### 11D.1.1 Legislation

Port Moresby Private Hospital Limited (formerly Negliw No. 81 Limited) was incorporated under the

Companies Act and was acquired by the Motor Vehicles Insurance (PNG) Trust, now Motor Vehicles Insurance Limited on 30 September 1994 as a subsidiary. Port Moresby Private Hospital Limited changed its name from Negliw No. 81 Limited in 1996.

The Company was later transferred to the General Business Trust on 2 August 2002.

### 11D.1.2 Objective of the Company

The objective of Port Moresby Private Hospital Limited was to construct, furnish and equip a building to operate as a hospital.

### 11D.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2011 and 2012 had been completed. The signed financial statements were not submitted by the Company despite reminders to enable me to issue the Reports.

The financial statement for the year ended 31 December 2013 had not been submitted for my inspection and audit.

## 12. INDUSTRIAL CENTRES DEVELOPMENT CORPORATION

### 12.1 INTRODUCTION

#### 12.1.1 Legislation

The Industrial Centres Development Corporation was established under the Industrial Centres Development Corporation Act 1990 which came into operation on 23 August 1990. The Corporation commenced trading on 5 January 1994.

#### 12.1.2 Functions of the Corporation

The main functions of the Corporation are:

- \* Overall planning and implementation of the Government's industrial centre development programme;
- \* Preparation of feasibility studies in order to identify appropriate forms of industrial development;
- \* To identify therewith or otherwise, regions and sites in the country for industrial centres, and
- \* To do such supplementary, incidental or consequential acts, as are necessary for the development and promotion of industrial centres in PNG.

### 12.2 AUDIT OBSERVATIONS

#### 12.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the Corporation's financial statements for the year ended 31 December 2010 was issued on 11 November 2013. The report contained a Qualified Opinion.

#### "BASIS FOR QUALIFIED OPINION

## Trade Debtors –Malahang Industrial Centre (MIC)

The MIC trade debtors balance had been reported as K620,863 at year end. Out of this amount, K344,316.95 remained outstanding for a long period of time, therefore the collectability of this amount is in doubt. As such, I was unable to satisfy myself as to the accuracy and collectability of the trade debtors reported at the year end.

## Sundry Debtors – K1,142,634

Included in the above account were land sales debtors totalling K655,373.88 which have been outstanding for over 90 days. In addition, land sales debtors with credit balances (as a result of customers payments) totalling K63,459.98 were never been allocated with invoices. As a result, the sundry debtors account was understated by the said amount. Consequently, I was unable to ascertain the accuracy, correctness and collectability of the sundry debtors as reported in the financial statements at 31 December 2010.

## Industrial Centres Development Corporation

### Employee Provisions

Employee provisions disclosed in the financial statements was K297,887. My examination revealed that the Corporation did not maintain history/ledger cards to calculate provision for annual leave, long service leave and other entitlements during the year. Variances were noted between the schedules submitted against the general ledger. In addition, there were no provisions made for staff gratuity for the year. As a result, I was unable to satisfy myself as to the accuracy and completeness of the employee provisions of K297,887 as reported in the financial statements at 31 December 2010.

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

The Corporation has not prepared and submitted its financial statements to my Office before 31 March 2011 to enable me to conduct the audit and issue the audit report within the time frame stipulated in the Act. Consequently, the Corporation has breached Section 63(2) and 63(4) of the PFMA.

### QUALIFIED OPINION

In my opinion, except for the effect of the matters referred to in the Basis for Qualified Opinion paragraphs above:

- (a) The financial statements are based on proper accounts and records; and
- (b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Corporation for the year ended 31 December 2010 and the results of its financial operations and cash flows for the year then ended.”

### 12.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2010 was issued on 11 November 2013. The report contained the following observations.

## Custody of Corporation's Assets

Some of the officers of the Corporation were allocated with two laptops and printers but one was kept at their residence. During my assets verification exercise it was revealed that four laptops, two Cannon digital cameras and two Cannon video cameras were missing. The asset register did not properly indicate the custodians of these assets.

## Entertainment Expenses

Reimbursements of entertainment expenses paid/reimbursed to the Managing Director totalling K160,246 were incomplete and did not have proper documentation attached to the cheque requisition.

## Industrial Centres Development Corporation

### Other Internal Control Weaknesses

Other weaknesses noted during my review were:

- \* A travel advance register and proper acquittal file was not maintained by the Corporation during the year;
- \* Lack of control on staff advances;
- \* Inadequate control procedures over cash encashment and payment to suppliers;
- \* The production/printing of the Corporation's annual report never eventuated despite the down payment of K60,000, K50,000 and K15,000 on three different occasions to different companies;
- \* Reconciliation of general ledger accounts were not prepared on a periodic basis;and
- \* Minister's approval of the land sale was not provided.

I drew Management's attention to these weaknesses and I was advised that steps had been taken to address the issues.

## 12.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the financial statements of the Corporation for the year ended 31 December 2011 had been completed and the results were being evaluated.

The financial statements for the years ended 31 December 2012 and 2013 had not been submitted for my inspection and audit.

## 13. INVESTMENT PROMOTION AUTHORITY

### 13.1 INTRODUCTION

#### 13.1.1 Legislation and Objective of the Authority

The Investment Promotion Authority was established under the Investment Promotion Act 1992. The objective of the Act was to provide for the promotion of investment in the interests of national, social and economic development. This Act repealed the National Investment and Development Act (Chapter 120) and the Investment Promotion Act 1991.

## 13.1.2 Functions of the Authority

The principal functions of the Authority are to:

- \* Provide information to investors in the country and overseas;
- \* Facilitate the introduction of citizens and foreign investors to each other and to activities and investments of mutual benefits;
- \* Provide a system of certification of foreign enterprises;
- \* Advise the Minister on policy issues which relate to the Act; and
- \* Maintain a register of foreign investment opportunities.

## 13.2 AUDIT OBSERVATIONS

### 13.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the Authority's financial statements for the year ended 31 December 2012 was issued on 29 November 2013. The 2012 report did not contain any qualification.

### 13.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Authority for the year ended 31 December, 2012 was issued on 29 November, 2013. The report contained the following matters:

#### Unreconciled Difference

I noted an unreconciled difference of K16,000 between the Deregistered Company Receipts and the General Ledger balance stated in the financial statements. I brought this to the attention of the Authority and the Authority agreed to identify the entries and reconcile the account.

#### Investment Promotion Authority

#### Travel Advances Acquittals

I noted that travel advances made to various staff on official trips were not acquitted upon return within the required period as stipulated in the Financial Management Manual Part 20 Paragraph 11.2. I brought this to the attention of management and they took note of my concern and agreed to take measures to comply with the requirements.

## 13.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Authority for the year ended 31 December 2013 had not been submitted for my inspection and audit, despite numerous reminders from my Office.

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

### 14.1 INTRODUCTION

#### 14.1.1 Legislation



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

The Kokonas Industri Koporesen Act subsequently established PNG Coconut Extension Fund and PNG Coconut Research Fund. Comments in relation to these Funds are contained in paragraphs 14A and 14B respectively, of this Report.

#### 14.1.2 Functions of the Koporesen

The principal functions of the KIK are to regulate and assist in the export and marketing of copra in the best interest of the copra producers of PNG and to administer the PNG Coconut Extension Fund and the PNG Coconut Research Fund.

### 14.2 AUDIT OBSERVATIONS

#### 14.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the KIK for the years ended 31 December 2012 and 2013 were issued on 2 October 2013 and 29 April 2014 respectively. These reports did not contain any qualification.

#### 14.2.2 Audit Observations Reported to the Ministers

My reports to Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the KIK for the years ended 31 December 2012 and 2013 were issued but for the purpose of this Report, only 2013 comments are reproduced.

#### Managing Director's Contract of Employment

My examination of the personnel records for the year ended 31 December 2013 revealed that the NEC, in its Decision No: 14/2013 dated 23 February 2013, confirmed the appointment of the current Managing Director of KIK for a period of four years. The NEC further directed the Secretary for the Department of Personnel Management to prepare a "Contract of Employment" for the Managing Director, which I noted was still not finalised.

As a result, I was unable to determine on what basis the Managing Director's remuneration was calculated. Management took note of my concerns and advised that the Managing Director was on the same scale of the previous Managing Director and adjustments would be effected once the "Employment Contract" was signed.

### 14A. PNG COCONUT EXTENSION FUND

#### 14A.1 INTRODUCTION

The Copra Marketing Board (Amendment) Act 1997 provides for the establishment of the PNG Coconut Extension Fund for the purpose of receiving levies and engaging in extension services and related programmes in accordance with the terms of the Act.

### 14A.1.1 Objective of the Fund

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

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

## 14A.2 AUDIT OBSERVATIONS

### 14A.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Extension Fund for the years ended 31 December 2012 and 2013 were issued on 2 October 2013 and 29 April 2014 respectively. These reports did not contain any qualification.

### 14A.2.2 Audit Observations Reported to the Ministers

My examinations in accordance with Section 8 (2) of the Audit Act revealed satisfactory results.

## 14B. PNG COCONUT RESEARCH FUND

### 14B.1 INTRODUCTION

#### 14B.1.1 Legislation and Objective of the Fund

The PNG Coconut Research Fund was established by the Kokonas Industri Koporesen Act following the repeal of the Copra Marketing Board (Amendment) Act and the cessation of the PNG Copra Research Fund. The KIK deducts a copra research fee of K4 per tonne of copra purchased from producers and pays it to the Research Fund. The Research Fund in turn, pays this CESS to the Cocoa Coconut Institute of PNG.

## 14B.2 AUDIT OBSERVATIONS

### 14B.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Research Fund for the years ended 31 December 2012 and 2013 were issued on 2 October 2013 and 29 April 2014 respectively. These reports did not contain any qualification.

### 14B.2.2 Audit Observations Reported to the Ministers

My examinations in accordance with Section 8 (2) of the Audit Act revealed satisfactory results.

## 15. LEGAL TRAINING INSTITUTE

### 15.1 INTRODUCTION

#### 15.1.1 Legislation

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

## 15.1.2 Functions of the Institute

The functions of the Institute are to provide practical training in law, the conduct and management of legal offices, trust accounts and related subjects for candidates for admission, to a standard sufficient to qualify them for admission to practice as lawyers under the Admission Rules as contained in the Lawyers Act of 1986.

## 15.2 AUDIT OBSERVATIONS

### 15.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Institute for the year ended 31 December 2012 was issued on 24 May 2014. The report contained a Qualified Opinion.

#### “BASIS FOR QUALIFIED OPINION

##### Personnel Emoluments

The Institute has not provided the Pay Schedule for Pay # 26 to enable me to perform the necessary examination to verify the accuracy of the payment made for the pay period. As such I was unable to state whether personnel emoluments have been fairly stated in the financial statements.

##### Travel Advances & Register

The Institute incurred K99,308 in Travel and Subsistence Expenses for the year ended 31 December 2012. During the examination, I was not provided with the necessary documentation to perform the necessary audit tests. Further, I noted that Travel Advance Register was not properly maintained for tracking outstanding advances made to employees to ensure the acquittals are made on a timely basis.

#### QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs above:

(a) The financial statements of the Institute are based on proper accounts and records; and

##### Legal Training Institute

(b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Institute as at 31 December 2012 and the results of its financial operations and cash flows for the year then ended.”

### 15.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2012 was issued on 24

May 2014. The report contained the following observations.

#### Cash at Bank Reconciliations

The monthly bank reconciliations prepared for the General Fund and Project Bank Accounts were not checked and signed off by a responsible financial delegate to verify the accuracy and validity of the reconciled bank balances. I have recommended to Management that all reconciliations must be checked and approved for effective internal control purposes.

#### Project Account

I noted that the Institute maintained an account named "Project Account" with the receipt of K436,689 and the expenditure of K281,260 at year end. However, in my review of the Project Account, the purpose or nature of the account's operations was not disclosed in the financial statements. Further, the Institute did not have a Governing Policy and Guidelines in place for this account.

#### General Fund Account – General Expenditure Weaknesses

I noted that certain payments made were based on quotations rather than invoices totalling K70,460. Further, I was not provided with necessary documents for payment of K10,070 to "The Food Station Caters Company" for my verification.

#### Council Meeting Minutes

My review of all the Council Meeting Minutes revealed that these Meeting Minutes were not authenticated by the Chairperson and the Secretary as true and correct recording of Minutes of the Institute.

#### Fixed Assets Register

In my prior year's audit report, I reported that the Institute did not maintain a Fixed Assets Register. I noted that the situation still remains the same, regardless of my recommendations to Management to maintain a Register. The Fixed Assets Register serves as the main control of all assets owned by the Institute and that if in case of loss, theft or any disaster occurs, it would be difficult to identify the magnitude of loss. Further, the Institute did not conduct any stock-take of the assets in order to ascertain their existence and condition of the assets.

#### Management Letter Response

At the time of preparing this Report, I did not receive any responses to my Management Letter, dated 2 December 2013 to enable me to incorporate their comments as part of the Report.

#### 15.3 STATUS OF FINANCIAL STATEMENTS

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

## 16. MINERAL RESOURCES AUTHORITY

### 16.1 INTRODUCTION

#### 16.1.1 Legislation

The Mineral Resources Authority was established by the National Parliament under the Mineral Resources Act, 2005 on 9 November 2005. This Act came into force on January 2006 but commenced operations in June 2007.

#### 16.1.2 Objectives of the Authority

The objectives of the Authority are to achieve stability, industry growth and a degree of assurance of future revenues from the mineral industry. More effective management of issues concerning landowners and their participation in the development process and allow for the development of a more settled investment climate and industry development.

#### 16.1.3 Functions of the Authority

The functions of the Authority are described as follows:

- \* To advise the Minister on matters relating to mining and the management, exploitation and development of Papua New Guinea's mineral resources;
- \* To promote the orderly exploration for the development of the country's mineral resources;
- \* To oversee the administration and enforcement of the Mining Act 1992, the Mining (Safety) Act (Chapter 195A), the Mining Development Act (Chapter 197), the Ok Tedi Acts and the Ok Tedi Agreement, the Mining (Bougainville Copper Agreement) Act (Chapter 196) and the agreements that are scheduled to that Act, and any other legislation relating to mining or to the management, exploitation or development of PNG's mineral resources;
- \* To negotiate mining development contracts under the Mining Act as agent for the State;
- \* To act as agent for the State, as required, in relation to any international agreement relating to mining or to the management, exploitation or development of PNG's mineral resources;
- \* To receive and collect, on its own account and on behalf of the State, any fee, levy, rent, security, deposit, compensation, royalty, costs, penalty, or other money, or other account payable under the Mining Act, the Mining (Safety) Act, the Mining Development Act, the Ok Tedi Acts and the Ok Tedi Agreement, the Mining (Bougainville Copper Agreement) Act and the agreements that are scheduled to that Act, or any other Act the administration of which is the responsibility of the Authority from time to time;
- \* On behalf of the State, to receive and collect from persons to whom a tenement has been granted under the Mining Act the security for compliance with the person's obligations under the Act required to be lodged with the Registrar, and to hold and such security received or collected;
  
- \* On behalf of the State, to administer and be responsible for the administration of any public investment program relating to mining;
- \* To conduct systematic geoscientific investigations into the distribution and characteristics of PNG's mineral and geological resources, located on, within or beneath the country's land mass, soil, subsoil and the sea-bed;
- \* To provide small scale mining and hydrogeological survey data services, and occupational health and safety community awareness programs;
- \* To collect, analyse, store, archive, disseminate and publish (in appropriate maps and publications) on behalf of the State geoscientific information about PNG's mineral and geological

resources;

\* To carry out such other functions as are given to the Authority by this Act or by any other law; and

\* Generally to do such supplementary, incidental, or consequential acts and things as are necessary or convenient for the Authority to carry out its functions.

## 16.2 AUDIT OBSERVATIONS

### 16.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the Authority's financial statements for the year ended 31 December 2010 was issued on 20 September 2013. This report contained a Disclaimer of Opinion.

#### "BASIS FOR DISCLAIMER OF OPINION

##### Opening Balances

My report on the financial statements of the Authority for the year ended 31 December 2009 was disclaimed on the basis of limitation of scope due to lack of information and adequate supporting evidence. Consequently, I was unable to determine the accuracy of the opening financial position of the Authority as at 1 January 2010 because the results for the year ended 31 December 2009 enter into the determination of the opening balances and therefore the financial performance for the year ended 31 December 2010. Due to the significance and fundamental nature of the matters referred to, I was unable to determine whether the results of the Authority for the year and the net assets at year end are fairly stated.

##### Amounts included in the Statement of Financial Position

Included in the Statement of Financial Position as at 31 December 2010 were the following amounts:

\* Cash and cash equivalents balance of K47,911,397;

\* Trade debtors balance of K225,586;

\* Other debtors and prepayments of K5,254,124;

\* Property, plant and equipment of K23,343,372;

\* Trade and other payables of K206,641;

\* Employee benefits of K609,561;

\* Security deposits of K1,417,760;

\* Deferred income of K21,511,454; and

\* Royalties held in trust of K270,895.

I was not able to obtain sufficient appropriate audit evidence relating to the carrying amount of the balances based on my audit procedures performed on these balances.

##### Amounts included in the Statement of Comprehensive Income

Included in the Statement of Comprehensive Income for the year ended 31 December 2010 were the following:

\* Rendering of services of K27,153,321;

- \* Finance income of K2,291,603;
- \* Deferred income of K741,155; and
- \* Operating expenses of K20,160,003.

I was not able to obtain sufficient appropriate audit evidence relating to the amounts based on audit procedures performed. Consequently, I was unable to determine whether any adjustments to these amounts were necessary.

#### Non-compliance with the Public (Finances) Management Act and Mineral Resource Authority Act

The Authority has not maintained accounting records in accordance with Section 62 of the PFMA and Section 35(1) of the Mineral Resource Authority Act to enable me to properly and readily audit the financial statements of the Authority.

In addition, the Authority did not meet the financial reporting requirements of Section 36(1) of the Mineral Resources Authority Act which requires the Authority to furnish to the Minister annual financial statements for the year ended 31 December 2010 before 31 May 2011.

#### DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I was unable to express an opinion on the financial statements of the Mineral Resource Authority for the year ended 31 December 2010.”

#### 16.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2010 was issued on 20 September 2013. The report contained the following observations.

##### Internal Control Environment

During the course of my audit, I identified several weaknesses in the Authority's accounting system and overall internal control environment operated during the year ended 31 December 2010. Management information is insufficient and reconciliations are not performed for items included in the Statement of Financial Position and/or reconciliations between the general ledger and sub-ledgers which resulted in significant delays in receipt of information for the audit.

##### Recording of Trade Debtors/Income

The Authority had recorded K7,425,947 as tenement income and K1,341,364 as deferred income (tenement rent) for the year ended 31 December 2010. I was unable to reconcile the tenement rental income per the general ledger against the tenement division records. In addition, I was unable to verify supporting documentation for tenement rentals due to non-maintenance of proper documents.

A production levy of K19,727,375 was recognised as income in the period in which it was received with a computation done by the respective operating/producing mines. The Authority did not have any structure in place to ensure there is the accuracy and completeness of the production levy of

K19,727,375 computed during the year.

The trade debtors reported in the financial statements of K225,586 remained the same amount from last year. The breakdown of customers summarising this balance was not made available for my inspection. These balances could be impaired or unallocated receipts may not have been applied or allocated to this balance.

I recommended Management to integrate the tenement rental sub-ledger with the general ledger and monthly reconciliations should be done. Any unallocated receipts and reconciling items noted should be investigated and adjusted promptly.

#### Board of Directors Meetings Minutes

One of the Board Meeting Minutes was not being made available during my review. I recommended Management to keep proper records of all Board Meeting Minutes and make these available to audit at all times.

#### Internal Audit Function

There is a requirement under Section 39(5) of the Mineral Resources Authority Act to appoint an internal auditor and provide written reports not less quarterly to the Minister and to the Department Head of the Department responsible for Treasury.

However the internal audit function has been vacant for a considerable period of time. I recommended Management establish the internal audit division in line with the terms of the Mineral Resources Authority Act.

### 16.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2011 was in progress.

The financial statements of the Authority for the years ended 31 December 2012 and 2013 had not been submitted for my inspection and audit.

## 17. MOTU KOITABU COUNCIL

### 17.1 INTRODUCTION

#### 17.1.1 Legislation

The Motu Koitabu Interim Assembly was established under Section 12 of the National Capital District Government (Preparatory Arrangements) Act (Chapter 392).

#### 17.1.2 Functions of the Interim Assembly

The Principal functions of the Interim Assembly were:

\* To control, manage and administer the Motu Koitabu areas and to ensure the welfare of the Motu Koitabu areas and of the persons therein;



- \* To assist in the preparations for the establishment of the proposed Assembly; and
- \* To make preparations for the establishment of a Motu Koitabu business arm.

The Act was repealed by the National Capital District Commission Act 1990, which came into operation on 5 November 1990. The assets and liabilities of the Interim Assembly were transferred to the Commission by virtue of the requirements of the new Act. Subsequent to this, the National Capital District Commission (Amendment) Act 1992 came into effect on 30 November 1992 and hence the establishment of the Motu Koitabu Council.

The Act was further amended by the National Capital District Commission (Amendment) Act 1995 which became effective on 19 July 1995 and this facilitated the establishment of a system of Local-level Government for the National Capital District (NCD). The government of the NCD comprises the NCD Commission, the Motu Koitabu Council and the Local-level Governments in the NCD.

The Interim Assembly had a subsidiary company, Tabudubu Limited, which operated as the business arm of the Interim Assembly. The shares in the Company were transferred to the Commission as required by the National Capital District Commission Act and are held in trust for the Motu Koitabuan people. Comments in relation to this subsidiary are contained in paragraph 17A of this Report.

With the introduction of the Motu Koita Assembly, Act a system of Local Government was established for the Motu Koita people of the NCD.

## 17.2 STATUS OF FINANCIAL STATEMENTS

In my last Report, I reported that the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Council for the years ended 31 December 2003 to 31 December 2007 had been completed and the signed financial statements from the Council were being awaited to issue the reports. I reported further that the new Board and Management declined to sign the financial statements. At the time of preparing this Report the situation remained the same.

### Kokonas Industri Koporesen

My reports on the entities for the years ended 31 December 2008 to 2013 will be reported under “Part III” of my Annual Report to the Parliament.

## 17A. TABUDUBU LIMITED (Subsidiary of Motu Koitabu Council)

### 17A.1 INTRODUCTION

#### 17A.1.1 Legislation

Tabudubu Limited was incorporated under the Companies Act. It is a subsidiary of the Motu Koitabu Council.

Motu Koitabu Interim Assembly holds 99 percent of the shares in Tabudubu Limited. The Company was established under the National Capital District Government (Preparatory Arrangement) Act (Chapter 392). This Act was repealed by the National Capital District Commission Act.

With the introduction of the National Capital District Commission Act, Motu Koitabu Interim Assembly was amalgamated with the Commission and the “Interim Assembly” became the Council. The assets, liabilities and the obligations of the Interim Assembly were absorbed by the Commission on the commencement date.

The shares in Tabudubu Limited were transferred to the Commission to be held in Trust for the Motu Koitabu people of the NCD by virtue of Section 47(2) of the National Capital District Commission Act.

#### 17A.1.2 Functions

The main functions of the Company as per the Memorandum of Association are to:

- \* Promote the development of the Motu Koitabu people living within the NCD by the promotion of trade, commerce, communication and co-operation; and
- \* Implement the directives of the Motu Koitabu Council and the NCD Commission.

#### 17A.2 STATUS OF FINANCIAL STATEMENTS

In my last Report, I reported that the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2003 to 2007 had been completed and the signed financial statements from the Company were being awaited to issue the reports. I reported further that the new Board and Management of the Company declined to sign the financial statements. At the time of preparing this Report, the situation remained the same.

My reports on the entities for the years ended 31 December 2008 to 2013 will be reported under “Part III” of my Annual Report to the Parliament.

### 18. NATIONAL AGRICULTURE QUARANTINE AND INSPECTION AUTHORITY

#### 18.1 INTRODUCTION

##### 18.1.1 Legislation

The National Agriculture Quarantine and Inspection Authority (NAQIA) was established by the National Agriculture Quarantine and Inspection Authority Act 1997. This Act came into operation on 29 May 1997.

Under this Act, all assets used for Quarantine and Inspection Services (other than land held by the State) and previously held by the Department of Agriculture and Livestock which were necessary to be transferred to the Authority for the purposes of the Authority, were transferred to and became the assets of the Authority at commencement.

##### 18.1.2 Objective of the Authority

The main objectives of the Authority as mentioned in the Act are the conduct of quarantine and inspection of: any animal and species; any fish species; any plant species; any products derived from animals, fish and plants; and to prevent pests or diseases from entering in or going out of PNG.

##### 18.1.3 Functions of the Authority

The functions of the Authority, as mentioned in the Act are to:

- \* Advise the Ministry and the National Government on policy formulations and legislative changes pertaining to agriculture quarantine and inspection matters;
- \* Monitor and inspect all imports of animals, fish and plants and their parts and products, including fresh, frozen and processed food to ensure that the imports are free from pests, diseases, weeds and any other symptoms;
- \* Regulate and control all imports of animals, fish and plants and their parts and products, including fresh, frozen and processed food to ensure the imports are free from pests, diseases, weeds and any other symptoms;
- \* Undertake all necessary actions to prevent arrival and spread of pests, diseases, contamination, weeds, and any undesirable changes pertaining to animals, fish and plants and their parts and products, including fresh, frozen and processed foods;
- \* Monitor, inspect and control the export of animals, fish and plants and their parts and products to ensure that they are free from pests, diseases, weeds and any other symptoms;
- \* Undertake all necessary actions to ensure that the export of animals, plants, fish and their parts and products are free from pests, diseases, weeds and any other symptoms so as to provide quality assurance to meet the import requirements of importing countries;
- \* Issue permits, certificates and endorsements pertaining to imports and exports of animals, fish and plants and their parts and products to provide quality assurance and to ensure that they are free from pests, diseases, weeds and any other symptoms;

#### National Agriculture Quarantine and Inspection Authority

- \* Inspect and treat vessels, aircraft, vehicles, equipment and machinery that are used in importing and exporting animals, fish and plants to ensure that they are free from pests, diseases, weeds and any other symptoms;
- \* Regulate the movement of animals and plants from one part of the country to another to control and prevent the spread of pests, diseases, weeds and any other symptoms;
- \* Undertake and maintain inspection and quarantine surveillance pertaining to pests, diseases, weeds and any other symptoms on animals, fish and plants within and on the borders of the country;
- \* Monitor, assess and carry out tests on animals, fish and plants and their parts and products that are introduced into the country, to ensure that they are free of pests, diseases, weeds and any other symptoms;
- \* Liaise with other countries, international agencies and other organisations in developing policies, strategies and agreements relating to quarantine, quality and inspection matters in respect of animals and plants;
- \* Provide quarantine and inspection information and services to individuals, agencies and other organisations within the country and overseas in respect of animals and plants;
- \* Levy fees and charges for any of the purposes of this Act and any regulations made there under;
- \* Exercise all functions and powers and perform all duties which, under any other written law, are or may be or become vested in the Authority or are delegated to the Authority; and
- \* Do such matters and things as may be incidental to or consequential upon the exercise of its power or the discharge of its functions under this Act.

#### 18.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and examination of the financial statements of the Authority for the year

ended 31 December 2013 had been completed and the Management Letter was issued to the Authority on 9 April 2014. The responses, together with the signed financial statements were awaited to complete and issue the audit report.

## 19. NATIONAL AGRICULTURAL RESEARCH INSTITUTE

### 19.1 INTRODUCTION

#### 19.1.1 Legislation

The National Agricultural Research Institute (NARI) was established by the National Agricultural Research Institute Act 1996. This Act came into operation on 10 October 1996.

Under this Act, all monies allocated to or standing to the credit of the research division of the Department of Agriculture and Livestock and all assets used for research and research related functions (other than land held by the State) and previously held by the Department of Agriculture and Livestock prior to the operationalisation of the Act were transferred to the Institute to become the assets at commencement.

#### 19.1.2 Objectives of the Institute

The main objectives of the Institute stated in the Act are to conduct and foster research into:

- \* Any branch of biological, physical and natural sciences related to agriculture;
- \* Cultural and socioeconomic aspects of the agricultural sector, especially of the smallholder agriculturalists; and
- \* Matters relating to rural development, relevant to PNG.

#### 19.1.3 Functions of the Institute

The primary functions of the Institute spelt out by the Act are to:

- \* Generate and adapt agricultural technologies and resource management practices appropriate to the needs, circumstances and goals of smallholder agriculturalists;
- \* Promote and facilitate applied and adaptive research in food crops, livestock, alternative cash crops, and resource management;
- \* Promote the use of appropriate agricultural technologies and provide essential technical services to improve the productivity, income, nutritional status and food security, resource base and quality of life of rural households and communities;
- \* Develop and promote ways of improving the output, quality, harvesting, post- harvesting, handling and processing, and marketing of food crops, livestock produce and alternative crops;
- \* Maintain and conserve the diversity of genetic resources for food and agriculture, act as custodian for these resources and promote the effective utilisation of these resources in the country;
- \* Update and maintain the national inventory on soil resources and to develop, promote and maintain sustainable practices in agriculture;
- \* Provide agricultural information services, extension service support and other such assistance packages to the agricultural sector and to provide liaison and access to international agencies that promote agricultural development;

National Agricultural Research Institute

- \* Perform such other functions as are given to it under this Act or any other law;
- \* Formulate national agricultural research policies, define sectoral research priorities and allocate funds and advise the Minister and the NEC on these matters; and
- \* Generally, do all such things as may be incidental or consequential upon the exercise of its powers and the performance of its functions.

#### 19.1.4 Project of the Institute

The National Agricultural Research Institute/PNG Incentive Fund Project was funded under the PNG Incentive Fund with counter funding from the Institute commencing on 1 June 2012 to 5 May 2014. Comments in relation to the Project are contained in my Special Project Audits Report to Parliament.

### 19.2 AUDIT OBSERVATIONS

#### 19.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the financial statements for the year ended 31 December 2013 was issued on 13 June 2014. The report did not contain any qualification.

#### 19.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2013 was issued on 13 June 2014. The report contained the following observation.

##### Non-Disclosure of Land Value

My review of the fixed assets of the Institute revealed that the land titles already issued to the Institute for its establishments and research activities by the State were not valued and disclosed in the financial statements as at 31 December 2013. I recommended Management value its land and make proper disclosure in the Institute's accounting records.

Management concurred with my findings and expressed that valuation of land would be an expensive exercise. However, Management agreed in principle to take appropriate action to value the fourteen Land Title Leases that the Institute holds currently from a Registered Land Valuer in compliance with my request.

### 20. NATIONAL AIDS COUNCIL SECRETARIAT

#### 20.1 INTRODUCTION

##### 20.1.1 Legislation

The National AIDS Council Secretariat was established under the National AIDS Council Act 1997. This Act was certified and became operational on 19 January 1998.

##### 20.1.2 Objectives of the Council

The objectives of the Council are to take multi sectoral approaches with a view to:

- \* Prevent, control and to eliminate HIV/AIDS transmission in PNG;
- \* Organise measures to minimise the personal, social and economic impact of HIV/AIDS; and
- \* Safeguard personal privacy, dignity and integrity in the face of the HIV/AIDS epidemic in PNG.

### 20.1.3 Functions of the Council

The functions of the Council include formulation, implementation, review and revision of national policy in accordance with its objects for the prevention, control and management of HIV/AIDS:

- \* Make recommendations and provide guidelines on the related issues to the NEC, PGs and LLGs;
- \* Foster, co-ordinate and monitor HIV/AIDS prevention, control and management strategies and program;
- \* Accept, administer and account for the funds and other resources allocated to it;
- \* Consult and co-ordinate with the appropriate state agencies and other persons and organisations on matters related to its activities;
- \* Initiate, encourage, facilitate and monitor preparation and dissemination of information, counselling, care and legal services, research on or in relation to HIV/AIDS; and
- \* Perform such other functions given to it under Section 5 of this Act or any other law.

## 20.2 AUDIT OBSERVATIONS

### 20.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the Council's financial statements for the years ended 31 December 2009 and 2010 were issued on the 31 January 2014 and 26 May 2014 respectively. These reports contained similar Basis for Disclaimer of Opinions, hence only the 2010 report is reproduced.

#### "BASIS FOR DISCLAIMER OF OPINION

##### Internal Control Environment

I noted significant weaknesses in the National AIDS Council Secretariat's overall internal control environment operated during 2010. The accounting system and internal control environment at the Council Secretariat continued to be severely deficient. The inefficient management control processes, inadequate financial reporting structure, and inexperienced and un-skilled staff had contributed to the undue delay in the preparation of the financial statements. Further, the Council was unable to substantiate most of the balances in the general ledgers, unable to provide details for mismatched accounting records and other financial information. As a result, I was unable to place any reliance on the internal controls and the effectiveness of the internal control systems for the year then ended.

##### Opening Balance

My last report for the year ended 31 December 2009 was a Disclaimer of Opinion due to the qualifications on opening balances, fixed assets, prior year adjustments and adjustments to opening balances. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of the above accounts and these opening balances enter into the determination of the results of the operations and cash flows of the Council in 2010. Consequently, I was unable to determine whether, any adjustments to the results of the operations and cash flows might have

been necessary for the year ended 31 December 2010.

#### General Ledger Control Account Reconciliation

General ledgers control account reconciliation is one of the key internal control processes to maintain integrity of the financial data, provided it is performed in an effective manner on a timely basis. I noted that expense items contained significant unreconciled variances when compared to the end of year balance. As such, I was unable to verify the validity, accuracy and completeness of year end balances disclosed in the financial statements as they were not derived from the general ledgers.

#### Consultancy Agreement

Administration Consultancy Fees were stated as K30,905 in the financial statements. This amount was paid to Payroll Service PNG. I was not provided with the Consultancy Agreement for the service provided to the Council. As such, I was not able to verify the validity and the correctness of the payment.

#### Fixed Assets Register

The Council did not maintain a proper Assets Register to record all the assets nor was a stock-take conducted annually to verify their existence and value. The Assets Register furnished for my review was incomplete and had inaccurate listing of assets without any depreciation schedule and proper classification of assets.

#### National AIDS Council Secretariat

Further, I noted that the Register does not incorporate the assets purchased from the Provincial AIDS Council Secretariat (PACS). As a result, I was unable to verify and confirm the total amounts as stated in the Register and the amount disclosed in the financial statements as at 31 December 2010.

#### DISCLAIMER OF OPINION

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

#### 20.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Council for the years ended 31 December 2009 and 2010 were issued on 31 January 2014 and 26 May 2014 respectively. For the purpose of this Report, only significant matters arising out of the 2010 report is reproduced below.

#### Bank Reconciliation – Provincial Aids Council Secretariats

The Public Investment Programs (PIP) Development Trust Funds are allocated to the Provincial AIDS Council Secretariat (PACS) for projects to be implemented at Provincial centers. My review on the

control functions of the bank reconciliations revealed that the respective PACS did not prepare bank reconciliations during the year under review. I further noted that PACS's send their acquittals to the Head Office in Port Moresby and only one bank reconciliation for the whole year was prepared and maintained.

I recommended Management to ensure that each PACS prepares bank reconciliations on a regular basis and to forward reports to Head Office for the compilation and record purposes. I was advised by Management that in 2012 a NGO assisted the Council with a roll out kit to facilitate the preparation of the monthly bank reconciliations.

### Employment Contracts

The Contracts of Employment for the Senior Officers were not made available for my inspection and verification. As required under Section 42 (1) of the Public Service Management Act 1995 an officer appointed to a senior management office shall be employed under and shall hold office with terms and conditions of the contract of employment with the State. The Employment Contract is a legally binding contract which contains terms and conditions of employment. As such, I was unable to determine the validity, accuracy and legality of the contract of employment.

### Tax Declaration Forms

In my review of the personnel files, I noted that there were no records of Tax Declaration Forms to verify the number of dependents claimed and the validity of tax computations. The Council did not maintain and keep proper records of Tax Declarations Forms in its officer's personnel files. As a result, I was unable to determine and verify the number of dependents claimed and ensure whether the tax calculations are correct.

### Travel Advance Register

In compliance with the PFMA overseas and domestic travels are supposed to be acquitted within 14 days and 7 days respectively. However, the Council did not maintain a Travel Advance Register to properly acquit travel expense made during the year. As such, I was not able to trace and confirm the correctness and the completeness of the advances made and whether the advances made were correctly and properly acquitted and accounted for during the year.

### Acquittals for PACS

The Public Investment Programs (PIP) Development Funds were allocated to each PACS for projects. I noted that thirteen PACS did not submit their acquittals for the funds received on a timely manner. The provinces referred to are: Simbu, Western Highlands, Eastern Highlands, Manus, New Ireland, Oro, Central, Gulf, Western, Enga and Morobe. Without the acquittal submission, I was not able to verify and confirm whether the funds were used for their intended purposes.

### Reports under the Public Finances (Management) Act

The Council failed to submit to my Office its financial statements for 2010 before 31 March 2011 to enable me to audit and issue the report as required under Section 63(4) of the PFMA. As a result, the Council had breached the Act.

## 20.3 STATUS OF FINANCIAL STATEMENTS



At the time of preparing this Report, the Council had submitted its financial statements for the year ended 31 December 2011 for my inspection and audit and arrangements were being made to commence the audit without delay.

The Council had not submitted its financial statements for the years ended 31 December 2012 and 2013 for my inspection and audit despite repeated reminders.

## 21. NATIONAL BROADCASTING CORPORATION

### 21.1 INTRODUCTION

#### 21.1.1 Legislation

The National Broadcasting Commission (NBC) was established under the Broadcasting Commission Act (Chapter 149). This Act was amended in 1995 by the National Broadcasting Commission (Change of Name and Corporate Structure) Act 1995.

In terms of Section 4 of the Broadcasting Commission (Change of Name and Corporate Structure) Act No.49 of 1995 the name of the Commission was changed to Corporation.

The Amendment Act No.49 of 1995 came into operation on 23 April 1996 as per Gazettal Notification No.G.32.

#### 21.1.2 Functions of the Corporation

The principal functions of the Corporation are to provide balanced, objective and impartial broadcasting services and in so doing, to take in the interests of the community, all such measures as in its opinion are conducive to the full development of suitable broadcasting programs.

The Corporation's other functions are to:

- \* Ensure that the services that it provides, when considered as a whole, reflect the drive for national unity and at the same time give adequate expression to the culture, characteristics, affairs, opinions and needs of the people of the various parts of the country and in particular of rural areas;
- \* Do all in its power to preserve and stimulate pride in the indigenous and traditional cultural heritage of PNG;
- \* Take extreme care in broadcasting material that could inflame racial or sectional feelings; and
- \* Co-operate with the Government in broadcasting social, political, economic and educational programs.

### 21.2 AUDIT OBSERVATIONS

#### 21.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act, on the Corporation's financial statements for the year ended 31 December 2012 was issued on 25 April 2014. The report contained a Disclaimer of Opinion.

#### "BASIS FOR DISCLAIMER OF OPINION

## Limitation of Scope due to Disclaimer of Opinion on the previous year's Financial Statements

The previous year's audit report was issued with a disclaimer of opinion. The reason for the disclaimer was the limitation of scope arising from an inability to obtain accounting records and proper explanations for the differences that were recorded between the 2011 general ledger balances and the 2011 financial statements.

A similar qualification had been made in the 2010 Audit Report. Consequently, I was unable to quantify the effects of any material misstatements in the opening balances that might have a consequential effect on the financial statements of the Corporation for the year ended 31 December 2011. Therefore, there was considerable uncertainty as to the accuracy of the 2012 opening balances. Due to the lack of records and inadequate reconciliations, I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the opening balances or the comparatives presented in the financial statements.

## Internal Control Environment

I have identified significant weaknesses in the Corporation's overall internal control environment in operation during the year under audit.

The use of the Attaché Accounting System and the overall internal control environment at the NBC continued to be grossly defective. The combination of an inefficient management information system, inexperienced and/or incompetent staff as well as an inadequate financial reporting structure had contributed to the undue delay in the preparation of the financial statements. The reports that were produced by the system were inaccurate and Management was unable to substantiate most of the balances included in the general ledger. This effectively meant that I could not place reasonable reliance on the accounting system to ensure the completeness and accuracy of the books of the accounts maintained.

## General Ledger

As noted during the audit, the General Ledger and Trial Balance can only be agreed through extensive use of adjusting and non-supported journal entries posted over a significant period of time after year end. The Corporation's chart of accounts still had multiples of so many similar accounts where only one could have been used to record the same transactions. This resulted in inconsistent posting of transactions to their accounts. The Corporation's general ledger system is completely unreliable as it contains posting errors, omissions and unsupported transactions. The cashbooks do not contain vital information such as transaction details, general ledger codes and payment particulars.

Many of the financial transactions of the Corporation have been posted to the general ledger by using standing and adjustment journals as the primary financial records were not used to record entries at the individual transaction level.

The majority of these journal entries were not authorised properly, narrated or supported by adequate summary documentation. I have been unable to obtain reasonable assurance as to whether all the transactions recorded in the general ledger are accurate, complete or correct.

Due to these factors, I was unable to place reliance on the accounts and records submitted for

audit verification to establish whether the NBC fully complied with the statutory requirements for maintaining proper accounts and records.

#### Limitation of Scope Arising from Lack of information/records on Fixed Assets

The net carrying value of the Corporation's fixed assets was K38,375,554 as at 31 December 2012. This represents 91% of the total assets of the Corporation. During my review, I was neither able to establish nor confirm the ownership of the revalued land and buildings with a total un-depreciated value of K92,209,208. Further, the evidence of ownership of various fixed assets and details of their effective lives were not made available for my examination and verification. Also, no proper fixed assets register was maintained and the Corporation did not undertake a physical stock-take of its fixed assets during the year under review. In addition, I could not confirm the depreciation amount for the year totalling K2,371,818 as correct because of non-maintenance of the fixed assets register and depreciation schedule. As a result, I was unable to verify the physical existence, ownership, usefulness and valuation including the adequacy or otherwise of the provision for depreciation of fixed assets.

#### Scope Limitation – Accounts Receivable and Other Debtors

The financial statements disclosed Trade Debtors as K2,565,943 at year end. In the absence of sufficient documentary evidence of the trade debtors, I was unable to verify the accuracy, completeness and validity of the account balance at the year end.

#### Cash and Cash Equivalents

The cash and cash equivalents were disclosed as K1,044,504 at 31 December 2012. The bank reconciliations were incorrectly completed for most of the bank accounts operated by the NBC. Further, the Corporation disclosed an overdraft bank balance of K2,581,438 as a current liability in the financial statements. However, I noted that the Corporation did not have an overdraft facility with any banking institutions. In the absence of proper reconciliations of the bank accounts and overdraft facilities, I was unable to confirm the completeness, accuracy and existence of the bank and petty cash balance and the bank overdraft balances disclosed in the financial statements at the year end.

#### Scope Limitation – Trade Creditors and Accruals

The Corporation disclosed Trade Creditors balance as K10,094,797 and accruals balance of K731,612 respectively in the financial statements at year end. The Corporation did not provide any reconciliations or appropriate documentary evidence to support the amount. As a result, I was unable to confirm the accuracy, completeness and existence of Trade Creditors and Accruals at the balance date.

Furthermore, I was unable to perform the cut-off procedures test of sundry creditors to ascertain whether all credit transactions were recorded in the correct accounting period or that the accruals were fairly recorded and that the method of accounting for accruals was consistently applied. As a result, I was unable to confirm whether the account balances were fairly stated at the year end.

#### Scope Limitation – Deferred Income – Donations

The Corporation disclosed K3,241,986 as deferred income for donations at the commencement of

the year, however, the amount lacked appropriate supporting documentation. The entire opening balance was amortised in the year and an amount of K3,241,986 was transferred to Grant Income which I could not verify due to the lack of supporting documentation.

As a result, I was unable to confirm the validity, completeness and accuracy of the deferred income and the amortised amounts as stated in the financial statements.

#### Scope Limitation – Profit and Loss Account

The Corporation reported total revenue as K44,987,239, expenditure as K33,730,017 and recorded a net profit of K11,257,222 for the year ended 31 December 2012. I was not provided with appropriate supporting documentary evidence in respect of the sources of revenue and expenditure accounts for the period under review to substantiate the subsidiary account balances. Because of the limitation in documentary evidence, I was unable to verify the accuracy, completeness and validity of the account balances at the year end.

#### Cashflow Statements

According to International Accounting Standard (IAS) 7, the Corporation should prepare a “Cash Flow Statement” in accordance with the requirements of that standard and should present it as an integral part of its financial statements. However, the cash flow statements prepared by the Corporation do not meet the requirements for presentation as required by IAS 7.

#### Financial Statements do not comply with International Accounting Standards

The financial statements do not comply with IAS “Presentation of Financial Statements” as there is no proper statement of changes in equity to comply with International Financial Reporting Standards (IFRS).

#### DISCLAIMER OF OPINION

In my opinion, because of the limitation of the scope of my work and other matters referred to in the Basis for Disclaimer Opinion paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitations and other matters not existed, I was unable to and do not express an opinion on the financial statements of the National Broadcasting Corporation for the year ended 31 December 2012.”

#### 21.2.2 Audit Observations Reported to the Minister

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2012 was issued on 25 April 2014. The report contained the following observations.

#### Documentation and Control

In general, there was a serious lack of supporting documentation in respect of revenue, expenditure, assets and liability balances in relation to the audit for the year ended 31 December 2012. In addition to the lack of supporting documentation, there was also a complete lack of effective internal controls over income, expenditure, assets and liabilities.

Because of the unreliable nature of the general ledger, absence of certain reconciliations and underlying records not being made available, I could not ascertain the extent of the inaccuracies in the financial data and the effect that this may have had on the financial position and results of operations of the Corporation for the year ended 31 December 2012.

I have recommended Management take immediate steps to introduce a manageable document filing system so that documents can be easily retrieved or located when the need arises and act to ensure that set procedures and processes are being adhered to when executing transactions and that the natures of those transactions are consistent with the operations of the Corporation. Management responded as follows: "NBC management takes note of the recommendation. Before the appointment of previous management, NBC use to have very effective process and procedures in place and the process and procedures were not being effectively and efficiently adhered by the previous management. And the new management is trying its best to make sure proper process and procedures are followed in terms of, recruiting qualified staff, procuring goods and services, training and development in relation to new systems introduced such Attaché, HR system, etc. The management is targeting that at the end of 2013 there should be some order in the organisation regarding the observance of process and procedures of this organisation that once enjoyed."

#### Failure to Perform Revaluation of Fixed Assets since 2003 – Land and Buildings Materially Understated

The Corporation has failed to revalue the land and buildings it owns since 2003. It is normally expected that when assets of this nature represent such a significant proportion of an entity's balance sheet that revaluations are performed on an ongoing basis and at a minimum, every three years. I have recommended to Management that the Corporation immediately arrange for a professional and independent valuation of all the land and buildings currently held. Management responded as follows: "NBC progressive stock take has started since 2013 and would have a valuation by 2014 of all land and buildings."

#### Fixed Assets Register

The Corporation does not have a Fixed Assets Register. Additions of assets by the Corporation are being updated in the general ledger on an ad-hoc basis which is leading to inaccurate balances being reported in the financial reports. Accounting for disposals, obsolescence or lost assets does not appear to be taking place at all.

I have recommended Management take immediate action to establish a Fixed Assets Register in conjunction with the stock-take exercise to account for the additions and disposals and values of all assets to date. Management responded as follows: In 2012 audit, progress has been made getting Fixed Asset Register on. Asset officer has started coordinating with all Provincial and NHC HQ directives to provide assets listing and will follow with physical inspections."

#### Depreciation

Because there is no Fixed Asset Register and poor records, depreciation calculated on Fixed Assets is being derived from the apparent year-end total balances. Ignoring the issue that depreciation is being calculated on some assets the Corporation no longer holds, the fact that it is calculated on the year-end balance means that there is no partial depreciation for assets acquired at different stages during the year. The charge is not being pro-rated. Additionally, due to the process of calculating depreciation manually in Excel, there is the potential for errors. Indeed when I reviewed the depreciation charges over different classes of assets, I noted that the actual rates charged

differ from those disclosed in the financial statements.

### Lack of Insurance Cover

As at 31 December 2012 the fixed assets of the Corporation (book value K38,375,554) were not insured. Potential losses due to fire, theft and other destructive occurrences remain un-mitigated and expose the Corporation to significant financial as well as legal risk. I have informed Management of the importance of insurance cover and was advised what action Management plans to take in this regard to protect its assets. Management responded as follows: "The NBC Management is considering the audit recommendation as it will depend on the availability of funds. The NBC Management will also check with the National Government if there were some remedial action plan to protect state properties by the GoPNG."

### NBC Board/Minutes

The term of office for the Board of NBC expired in 2011 and there was no Board in place during the year under audit. Management should liaise with appropriate authorities to ensure a proper Board is in place.

### Computer System

Central to the problems experienced within the Finance Division and experiences gone through during the audit was the inadequate financial information provided to Management by the Attaché Accounting System. This was a result of a number of significant factors. From the information available to me, I noted that there was lack of training of the staff involved in processing entries.

Additionally, the chart of accounts appears overly detailed such that individual codes exist for many variations of the same type of transactions. This has resulted in inconsistency of posting from period to period and day by day making meaningful comparison and therefore monitoring difficult.

There are suggestions that the original linkages set up when the new accounting package was introduced have added to the problems and unreliability of output. Notwithstanding this, it has become apparent that there has been a significant breakdown in the controls over processing of information and transactions in the system.

### Internal Audit Report

An independent Internal Audit function within the Corporation did not exist during the year under review. Consequently, no internal audit reports were available for my audit inspection. Internal audit function is an aid to Management. Therefore, Management should establish an Internal Audit Unit as a matter of priority.

### Prior Year's Fraud and Investigation Report

It was disclosed that there had been significant level of frauds within the Corporation during the years prior to my audit. The frauds were being investigated by an independent outside Accounting Firm. I was eventually provided with a copy of the report and its findings but was unable to use the report to ascertain what quantifiable effects, if any, the frauds may have had on the 2012 balances I was auditing.

## 21.3 STATUS OF FINANCIAL STATEMENTS

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

## 22. NATIONAL CAPITAL DISTRICT COMMISSION

### 22.1 INTRODUCTION

#### 22.1.1 Legislation

The National Capital District Government (Preparatory Arrangements) Act 1982 established the National Capital District Interim Commission. The purpose of this Act was to establish an interim government for the NCD and make preparatory arrangements for the establishment of a government for the NCD as required by Section 4(4) of the National Constitution. The National Capital District Government (Preparatory Arrangements) (Amendment) Act 1986 came into operation in 1987.

The National Capital District Commission Act 1990, which became operational on 5 November 1990, established the NCD Commission. The introduction of this Act resulted in the amalgamation of Motu Koitabu Interim Assembly with the NCD Commission. Consequently, the assets, liabilities and the obligations of the Interim Assembly were absorbed by the Commission on the commencement date.

Amendments through the National Capital District Commission (Amendment) Act 1992 which came into effect on 30 November 1992 resulted in the establishment of the Motu Koitabu Council.

That was followed by the establishment of the system of government for the NCD through the National Capital District Commission (Amendment) Act 1995 which came into operation on 19 July 1995. The NCD comprises the NCD Commission, the Motu Koitabu Council and Local-level Governments in the NCD.

#### 22.1.2 Functions of the Commission

The functions of the NCD Commission are to:

- \* Control, manage and administer the NCD to ensure its welfare and that of the persons in its jurisdiction; and
- \* Ensure that an adequate level of assistance is given towards the successful operation of Tabudubu Limited – the Company established by the Motu Koitabu Interim Assembly for the Motu Koitabu people of the NCD.

#### 22.1.3 Subsidiaries of the Commission

The subsidiaries of National Capital District Commission are National Capital District Botanical Enterprises Limited and Port Moresby City Development Enterprises Limited. Comments in relation to these subsidiaries are contained in paragraphs 22A and 22B of this Report.

#### National Capital District Commission

#### 22.1.4 Projects of the Commission

The National Capital District Commission implements National Capital District Urban Youth Employment Project. Comments in relation to this Project are contained in the Special Project Audits Report to Parliament.

## 22.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2010 was completed, however, the report was not issued due to some outstanding issues that are yet to be cleared.

The inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the year ended 31 December 2011 was in progress.

The financial statements for the year ended 31 December 2012 have been submitted for my inspection and audit, and arrangements were being made to commence the fieldwork shortly. The Commission had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

### 22A. NATIONAL CAPITAL DISTRICT BOTANICAL ENTERPRISES LIMITED (Subsidiary of NCDC)

#### 22A.1 INTRODUCTION

The NCD Botanical Enterprises Limited was incorporated under the Companies Act 1997 on 17 January 2000. Port Moresby City Development Enterprises Limited, a 100% owned subsidiary of the NCD Commission, holds 94% of the shares and the NCD Commission holds the remaining 6% shares directly or indirectly through trust.

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

##### 22A.1.1 Functions of the Company

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

#### 22A.2 AUDIT OBSERVATIONS

##### 22A.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the financial statements for the years ended 31 December 2003, 2004, 2005 and 2006 were issued on 20 May 2014. The reports contained similar Disclaimer Audit Opinions, hence, only the 2006 report is reproduced as follows:

##### "BASIS FOR DISCLAIMER OF OPINION

###### Limitation of Scope regarding Opening Balances

Due to the disclaimer of opinion in respect of the prior year ended 31 December 2005, I was not able to satisfy myself as to the resolution of the issues which formed the basis for the disclaimer



on the opening balances. Since these opening balances enter into the determination of the results of operations, financial position and cash flows of the entity for the year audited, I was unable to determine whether adjustments to the results of the operations, financial position and cash flows might be necessary for the year ended 31 December 2006.

#### Limitation of Scope regarding Accounting Records

I did not receive the accounting records and other necessary information from Management of the Company for the year ended 31 December 2006. I was therefore unable to perform the necessary and appropriate audit procedures.

#### National Capital District Botanical Enterprises Limited

#### Going Concern

The Company has been making losses in the past and is in a net liability position as at year end. The continuity of the entity as a going concern depends on the grants received from the NCD Commission, however, the entity has not received any written commitment from the Commission that grants will continue to be given for the foreseeable future. Accordingly, there is significant uncertainty about the ability of the Company to continue as a going concern should the Commission discontinue these grants. No disclosures are made in the financial statements in relation to this uncertainty.

#### DISCLAIMER OF OPINION

In my opinion, because of the limitation of the scope of my work and other matters referred to in the Basis for Disclaimer Opinion paragraphs above, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitations and other matters not existed, I was unable to and do not express an opinion on the financial statements of the NCD Botanical Enterprises Limited for the year ended 31 December 2006.”

#### 22A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records of the Company for the year ended 31 December 2007 was completed, however, the signed financial statements were not submitted to enable me to issue the report.

The financial statements for the years ended 31 December 2008, 2009, 2010, 2011, 2012 and 2013 had not been submitted for my inspection and audit despite numerous reminders.

#### 22B. PORT MORESBY CITY DEVELOPMENT ENTERPRISES LIMITED (Subsidiary of NCD)

##### 22B.1 INTRODUCTION

The NCD Commission acquired 100% shares of Vatar No.16 Pty Limited in 1994 with the intention to utilise the land called ‘Duran Farm’ for the construction of houses for its staff on the Home Ownership Scheme. The Company changed its name in November 1996 to Port Moresby City Development Enterprises Limited. This Company is a fully owned subsidiary of the NCD Commission.

## 22B.1.1 Functions of the Company

The Company's activities include business promotions in the NCD and the management of the Taurama Leisure Centre's gymnasium.

## 22B.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2006 and 2007 had been completed but the signed financial statements were not submitted by the Company to issue the reports, despite numerous requests.

The Company had not submitted its financial statements for the years ended 31 December 2008 to 2013 for my inspection and audit despite numerous reminders.

## 23. NATIONAL CULTURAL COMMISSION

### 23.1 INTRODUCTION

#### 23.1.1 Legislation

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

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

#### 23.1.2 Functions of the Commission

The main functions of the Commission are to:

- \* Perform the cultural functions of the former National Cultural Committee and in this connection, to assist and facilitate, preserve, protect, develop and promote the traditional cultures of the indigenous people of PNG;
- \* Encourage the development, promotion and protection of the contemporary cultures of PNG;
- \* Facilitate the marketing of selected and approved aspects of the cultures of PNG;
- \* Co-ordinate with related Government and non-Government agencies on cultural matters;
- \* Co-ordinate cultural activities with provincial cultural bodies;
- \* Liaise with non-Government organisations on cultural matters; and
- \* Liaise with international cultural organisations.

### 23.2 AUDIT OBSERVATIONS

#### 23.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Commission for the years ended 31 December 2010 and 2011 were both issued on 19 November 2013. The reports contained similar Qualified Opinions, hence only the 2011 report is reproduced.

## “BASIS FOR QUALIFIED OPINION

### Cash at Bank – K196,198

The Commission disclosed its bank balance as K196,198 at 31 December 2011. During my examination, I noted that the bank reconciliations were not properly prepared by the Commission and they contained material errors. I also noted a difference of K57,173 between the financial statement balance of K196,198 and the bank reconciliation statement balance of K139,025.

### National Cultural Commission

The Commission did not produce the bank reconciliation statements for the National Film Institute, National Performing Arts Troupe and Institute of PNG Studies operated under the control of the Commission. Further, I was not provided independent bank confirmations for all bank accounts maintained by the Commission. As a result, I was unable to place any reliance on the controls surrounding the bank reconciliation process and the balance disclosed at the year end.

### Fixed Assets – K2,376,020

I was not able to verify the ownership of land and building, motor vehicles, artifacts and equipment held by the Commission in Goroka and in Port Moresby. The available documentation was inadequate to enable me to perform the necessary audit procedures and satisfy myself that the Commission holds appropriate titles to its recorded land and buildings. As a result, I was unable to satisfy myself as to the ownership, existence and valuation of fixed assets as reported in the financial statements.

### Grants Transfers – K1,041,644

The Commission received total grants of K4,432,199 during the year. Of the total grants, the Commission transferred K1,041,644 to the National Film Institute, National Performing Arts Troupe and the Institute of PNG Studies during the year.

However, the three centres did not provide periodical acquittals on their operations to the Head Office. As a result, I was unable to verify the grants transferred to the above centres for the year ended 31 December 2011.

## QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs above:

- (a) The financial statements of the Commission are based on proper accounts and records; and
- (b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Commission as at 31 December 2011 and the results of its financial operations for the year then ended.

### 23.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records for the years ended 31 December 2010 and 2011 were both issued on 19

November 2013. The reports contained similar observations, hence only the 2011 report is reproduced.

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

The Commission did not submit its financial statements for the year ended 31 December 2011 on time to enable me to conduct the audit and issue and report within the time frame stipulated under the PFMA.

## National Cultural Commission

### Travel Advances Acquittal Register

The Commission did not maintain a travel advances register for travel advances totalling K530,654 at the year end. Consequently, the Commission breached the PFMA and the Financial Manual Part 20 paragraphs 11.2 and 12.10 which stated that cash advanced to officers on official duty travels must be acquitted within the time limit specified in the Act.

### Accounting System

The Commission since its inception has been recording and maintaining its financial information on a manual cashbook and spreadsheet. Receipts and payments were recorded manually using large register books and spreadsheets. I recommended Management source a computerised accounting package to maintain its financial transactions to suit its needs.

## 23.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Commission for the years ended 31 December 2012 and 2013 had not been submitted for my inspection and audit despite my repeated requests to the Commission.

## 24. NATIONAL ECONOMIC AND FISCAL COMMISSION

### 24.1 INTRODUCTION

#### 24.1.1 Legislation

The National Economic and Fiscal Commission was established in April 1996 under the National Economic and Fiscal Commission Act 1996 and Section 117 of the Organic Law on Provincial and Local-level Governments.

#### 24.1.2 Functions of the Commission

The main functions of the Commission are to:

- \* Provide assessment and views on national macro and micro economic issues and their relevance on the overall development of rural and urban communities;
- \* Consider and co-ordinate requests by Provincial Governments and Local-level Governments for foreign grants, loans and other financial assistance for development purposes;
- \* Ensure that Provincial Governments and Local-level Governments obtain a fair share of the national wealth and make recommendations to the NEC on the allocation of grants to Provincial

Governments and Local-level Governments;

- \* Recommend suitable economic development strategies and sound fiscal management policies to the Minister responsible for financial matters;
- \* Carry out cost and benefit analysis on the development of all natural resources and the impact of such development on national development and make such analysis available to the NEC;
- \* Review public accounting and related practices;
- \* Make yearly reports and recommendations to the NEC through the Minister responsible for financial matters;
- \* Assist the Provincial and Local-level Service Monitoring Authority with assessments and views on the planning and implementation systems of the Provincial Governments and Local-level Governments;
- \* Establish and maintain a gradation system for the purpose of classifying provinces and districts according to the stages of development of each;
- \* Assist the Provincial and Local-level Service Monitoring Authority in carrying out its other functions; and
- \* Provide advice to the Minister responsible for Provincial Government and Local-level Government (now Inter Government Relations) matters as and when required.

## 24.2 AUDIT OBSERVATIONS

### 24.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the Commission's financial statements for the years ended 31 December 2007 to 2010 and 31 December 2011 to 2013 were issued on 25 November 2013 and 13 May 2014 respectively. The reports contained similar Basis for Qualified Opinions, hence only the 2013 report is reproduced as follows:

National Economic and Fiscal Commission

#### "BASIS FOR QUALIFIED OPINION

##### Salaries and Allowances

Salaries and allowances were stated as K978,636 at 31 December 2013 in the financial statements. The supporting documentation in relation to payroll records was not provided for my review and verification. In the absence of these documentation, I was unable to confirm and verify the accuracy and the measurement of the account balance of K978,636 stated at the year end.

#### QUALIFIED OPINION

In my opinion, except for the effects of the matter referred to in the Basis for Qualified Opinion paragraph above:

- a) The financial statements are based on proper accounts and records; and
- b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Commission for the year ended 31 December 2013 and the results of its financial operations for the year then ended."

### 24.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the

accounts and records of the Commission for the years ended 31 December 2007 to 2010 and 31 December 2011 to 2013 were issued on 25 November 2013 and 13 May 2014 respectively. The reports contained similar comments; hence only the 2013 report is reproduced as follows.

### Meeting Minutes

The Commission, under Section 9(1) of the National Economic and Fiscal Commission Act is expected to meet at least three times in each year and to keep minutes of its meetings and copies sent to the Minister. I noted that there were no Board meetings held as required by the enabling Act. I requested Management explain why no meetings were held during the year under review and they responded as follows: "The Board was dissolved but is in the process of re-establishing it. The new Board will include three members including the CEO- Chairman. This is anticipated to be more practical. The AG's recommendations are acknowledged and will be adhered."

### Fixed Assets Register

In Note 5 to the financial statements, Capital Expenditure of the Commission was stated as K353,018 at 31 December 2013. My review of the Fixed Assets Register revealed that the Commission did not maintain a proper Fixed Assets Register of all the assets under its control. The Register provided for my review was incomplete and did not contain sufficient information to enable me to determine the value of individual assets. The Register did not capture the assets purchased in prior years and during the year to give a true and fair value of the total assets. In addition, there was no year-end stock-take of these assets.

### National Economic and Fiscal Commission

As a result, I was unable to determine the fair value, condition and location of the fixed assets held under the custody of the Commission as at 31 December 2013.

I recommended that Management take a complete stock-take of all its fixed assets and update the Fixed Assets Register to reflect the accurate information and they responded as follows: "We acknowledged the issue raised and have appointed the Implementation and Monitoring Officer and the Finance Clerk to address the matter."

### Personnel Files

My examination revealed that personnel files were not properly maintained and records, such as salaries and allowances variation advices, tax declaration forms, salary history cards and appointment letters, were either missing or not updated and maintained on a regular basis. Consequently, I was not able to determine and verify the correctness of the total wages of K74,664 paid during the year.

I recommended Management update all staff personnel files on a regular basis for ease of reference and Management responded as follows: "We acknowledged the issue raised and will engage an experience HR Clerk/Personnel Officer as a corrective measure."

### Travel and Subsistence

In accordance with the General Order 13.104 (e), all travel allowances by officers on duty travel must be properly acquitted. However, I noted that a total of K510,373 was not acquitted upon their

return by the officers of the Commission. I advised Management that duty travels must be acquitted within seven days of return from duty trips for domestic travels and within fourteen days for overseas travels. Management responded to my observation as follows: "That some officers have not properly acquitted advances despite an ongoing follow ups by the Administration Team. In addition, most acquittals were misplaced or lost during the transition from the Department of National Planning to National Economic and Fiscal Commission."

## 25. NATIONAL FISHERIES AUTHORITY

### 25.1 INTRODUCTION

#### 25.1.1 Legislation

The National Fisheries Authority was established under the Fisheries Management Act 1998. This Act came into operation on 11 February 1999 and replaced the Fisheries Act 1994. Under this Act, all assets including monies held in trust accounts which were held or occupied by the National Fisheries Authority established under the Fisheries Act were transferred to and became assets of the Authority.

#### 25.1.2 Functions and Powers of the Authority

The primary functions and powers of the Authority are described as follows:

\* The Authority shall:

- ? Manage the fisheries within the fisheries waters in accordance with this Act, taking into account the international obligations of PNG in relation to tuna and other highly migratory fish stocks;
- ? Make recommendations to the Board on the granting of licences and implement any licensing scheme in accordance with this Act;
- ? Liaise with other agencies and persons, including regional and international organisations and consultants, whether local or foreign, on matters concerning fisheries;
- ? Operate research facilities aimed at the assessment of fish stocks and their commercial potential for marketing;
- ? Subject to the Pure Foods Act, the Commerce (Trade Descriptions) Act, the Customs Act, the Customs Tariff Act and the Exports (Control and Valuation) Act control and regulate the storing, processing and export of fish and fish products;
- ? Appraise, develop, implement and manage projects, including trial fishing projects;
- ? Prepare and implement appropriate public investment programmes;
- ? Collect data relevant to aquatic resources;
- ? Act on behalf of the government in relation to any domestic or international agreement relating to fishing or related activities or other related matters to which the Independent State of PNG is or may become a party;
- ? Make recommendations on policy regarding fishing and related activities;
- ? Establish any procedures necessary for the implementation of this Act, including tender procedures; and
- ? Implement any monitoring, control, and surveillance scheme, including co- operation, agreements or arrangements with other States or relevant international, regional or sub-regional organisations, in accordance with this Act.

#### National Fisheries Authority

\* The Authority has, in addition to the powers otherwise conferred on it by this Act and any other

law, full powers to do all things that are necessary or convenient to be done for or in connection with the performance of its functions and the achievement of its objectives.

## 25.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2012 was substantially completed and the results were being evaluated.

The Authority had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

## 26. NATIONAL GAMING CONTROL BOARD

### 26.1 INTRODUCTION

#### 26.1.1 Legislation

The National Gaming Control Board was established in September 1993 by the enactment of the Gaming Machine Act 1993.

#### 26.1.2 Functions of the Board

The principal functions of the Board are to consider applications for and where appropriate grant permits and licences under this Act and to control the operations of gaming machines as specified in this Act and any other law.

### 26.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Board had submitted the financial statements for the year ended 31 December 2013 for my inspection and audit and arrangements were being made to commence the fieldwork shortly.

## 27. NATIONAL HOUSING CORPORATION

### 27.1 INTRODUCTION

#### 27.1.1 Legislation

The National Housing Commission Act (Chapter 79) was repealed by the National Housing Corporation Act 1990. The assets and liabilities of the former National Housing Commission were transferred to the National Housing Corporation in March 1990.

#### 27.1.2 Functions of the Corporation

The principal functions of the Corporation are to:

- \* Improve housing conditions;
- \* Provide adequate and suitable housing or letting to eligible persons;
- \* Sell houses to eligible persons;
- \* Make advances to eligible persons and approved applicants to enable them to become the owners of houses occupied by them;



- \* Develop residential land by way of providing adequate services for human settlements;
- \* Carry out and promote research or investigations into matters connected with urban development and human settlements; and
- \* Maintain dwellings and associated buildings vested in the Corporation.

### 27.1.3 Subsidiary of the Corporation

The National Housing Corporation has a subsidiary Company, National Housing Estate Limited. The Company was incorporated under the Companies Act on 28 September 2007. The principal purpose of the Company is to provide Real Estate Services. From information available, the Company commenced its normal operations as of 1 January 2010.

However, the Company had not submitted its financial statements for the years ended 31 December 2010, 2011, 2012 & 2013 for my inspection and audit despite numerous reminders from my Office.

## 27.2 AUDIT OBSERVATIONS

### 27.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Corporation for the years ended 31 December 2008, 2009 and 2010 were issued on 31 March 2014. The reports contained similar Disclaimer of Opinions, hence only the 2010 report is reproduced.

#### “BASIS FOR DISCLAIMER OF OPINION

##### Opening Balances

My reports for the prior years (31 December 2007, 2008 and 2009) were a disclaimer of opinion. I was unable to satisfy myself as to the accuracy and completeness of the opening balances of fixed assets, accruals, provisions and other liabilities, cash and cash equivalents, advance from the PNG Government and government equity.

Since these opening balances entered into the determination of the results of operations and cash flows of the Corporation in 2010, I was unable to determine whether adjustments to the results of operations and cash flows might have been necessary for the year ended 31 December 2010.

##### Fixed Assets

The carrying value of all fixed assets as at 31 December 2010 was K13,043,737 as reported in the financial reports. There was no physical stock-take performed at the end of the year neither was there any form of communication of the existence of fixed assets by the Corporation. No Fixed Assets Register was provided for my verification. Consequently, I was unable to verify the existence, valuation and completeness of all the fixed assets reported in the financial reports.

##### Trade Payables and Other Liabilities

The total Current Liabilities balance as at 31 December 2010 was K11,010,930 as stated in the financial reports. This balance consisted of Trade Payables of (K303,235), Audit Fee Provisions of

K132,000, Accrued Expenses of K210,913 GST Refund of (K507,318), Group Tax Provisions of K8,896,120 and Employee Benefit Payables of K2,670,450.

However, acceptable records were not maintained to enable me to verify the completeness, existence and accuracy of the balances as disclosed in the financial statements. As a result, I was unable to determine the accuracy and completeness of all the balances of the current liability accounts at year end.

#### Advance from PNG Government

The financial statements disclosed an Advance from PNG Government as K7,779,200 as at 31 December 2010. However, acceptable records were not maintained to enable me to verify the completeness, existence and accuracy of the balance as disclosed in the financial statements. As a result, I was not able to determine the accuracy and completeness of the balance of the Advance from PNG Government at year end.

#### National Housing Corporation

##### Government Equity

The financial statements disclosed Government Equity as K27,668,800 as at 31 December 2010. However, I was unable to obtain direct confirmation from the Department of Finance that this amount relates to equity contributions rather than advances. As a result, I was unable to determine the existence, completeness and valuation of the balance, and its classification and recognition as equity at year end.

##### Cash and Bank Balances

The financial statements disclosed Cash and Bank balances as (K5,486,934) as at 31 December 2010. However, I did not obtain independent bank confirmations from the banks to verify closing bank balances as at 31 December 2010.

Furthermore, bank reconciliations for all bank accounts were done at year end rather than monthly. As a result, I was unable to determine the existence, valuation and completeness of the Cash and Bank balances at year end.

#### DISCLAIMER OF OPINION

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

#### 27.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Corporation for the years ended 31 December 2008, 2009 and 2010 were issued on 31 March 2014. The reports contained similar observations, hence only the 2010 observations are reproduced.

## Non-Compliance with Public Finances (Management) Act

The National Housing Corporation has not prepared its financial statements within six months after the balance date and has consequently breached Section 63 of the PFMA.

## Non-Maintenance of Fixed Assets Register

The National Housing Corporation has not maintained a Fixed Asset Register. The Corporation owns properties (lands and buildings) and other fixed assets throughout the country for carrying out its functions as stipulated under Section 28 of its Act. However, all the fixed assets in its custody were not registered to monitor their existence, movement and fair value.

## 27.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Corporation for the years ended 31 December 2011 and 2012 had been submitted and the audit arrangements were in progress to commence the audits without delay.

The financial statements for the year ended 31 December 2013 had not been submitted for my inspection and audit.

## 28. NATIONAL INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY (NICTA)

### 28.1 INTRODUCTION

#### 28.1.1 Legislation and Objectives of NICTA

The National Information and Communications Technology Authority (NICTA) was established on 1 November 2009 by the National Information and Communications Technology Act 2009. The Authority succeeds the PNG Radio Communications and Telecommunication Technical Authority (PANGTEL) which was established on 1 January 1997 as part of the Government's policy to corporatize the Post and Telecommunication Corporation (PTC) and to have it divided into three different organisations namely: Telikom PNG Limited, Post PNG Limited, and Pangtel.

NICTA is a 100% Government-owned statutory authority, established to regulate the telecommunication industry in PNG.

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

#### 28.1.2 Functions of the Authority

The main functions or principal activities of the Authority are to exercise all licensing and regulatory functions in relation to the information and communications technology industry and perform all other functions as stated under Section 9 of the Act.

## 28.2 AUDIT OBSERVATIONS

### 28.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the Authority's financial statements for the periods ended 31 December 2010 and 2011 were issued on 21 March 2014 and 26 May 2014 respectively. The reports contained similar basis for Disclaimer of Opinions, hence only the 2011 report is reproduced.

#### "BASIS FOR DISCLAIMER OF OPINION

##### Internal Controls, Accounting Provisions and Procedures

During the course of my audit, I have identified significant weaknesses in the Authority's financial processes, procedures and internal controls in most facets of the accounting system and the overall internal control environment operated during the year under review.

I noted that there was lack of controls to capture and record all transactions and produce accounts that were reliable, complete and accurate. The internal controls were not effective and could not be relied upon to protect and safeguard the assets of the entity. As a result, I was not able to place any reliance on the financial and other related records submitted for my examination.

##### Opening Balances

The opening balances could not be confirmed as correct due to errors and material limitations of scope expressed in my previous audit reports. I was unable to quantify the effects of the material misstatements on the opening balances that might have a bearing on the balances reported as at 31 December 2011. As a result of the limitations, I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the account balances as at 31 December 2011.

##### Provision for Doubtful Debts – K1,529,447

The Authority has made a provision of K1,529,447 for its doubtful debts for the year under review. However, I was not informed of the basis or criteria used by the Authority in determining its provision for doubtful debts. Furthermore, I noted that the Authority did not have a properly documented policy in place to use as a guide to determine provisions for doubtful debts. As a result, I was unable to establish as to whether the provision for doubtful debts has been fairly stated at the year end.

##### Fixed Assets – K22,686,243

The Authority disclosed its fixed assets in its financial statements as K22,686,243 at 31 December 2011. I noted that the titles for land and properties amounting to K9,374,872 were not under the Authority's name as disclosed in the balance sheet. The title deeds are yet to be transferred to the Authority. As such, the fixed assets balance has been overstated by the Authority as at 31 December 2011.

##### Limitation of Scope – Revenue – K27,612,753

I was not able to verify the revenue of the Authority totalling K27,612,753 as disclosed in the financial statements. Supporting schedules, receipts books, invoices, deposit books and other necessary documents for the year were not provided for my review.

#### Limitation of Scope – Employee Provisions – K463,097

My examination of employee provisions revealed that staff personnel files were not properly updated. During the review, I was unable to obtain details such as commencement date and employment history which were used as a basis to calculate the provisions. As a result, I was unable to substantiate the above balance as adequate provision at the year end.

#### Fixed Assets Revaluation – K18,677,117

The Authority disclosed its total Reserve Balance as K18,677,117 at 31 December 2011. However, I was not provided with any supporting documentation to substantiate the ending balance.

#### Home Ownership Scheme – K397,340

The Authority presented a net Home Ownership Scheme (HOS) balance of K397,340 as at December 2011. This balance comprised HOS Suspensory Loans to staff totaling K1,823,861 and a corresponding amortisation amount of K1,426,521. This balance could not be verified to loan amortisation schedules provided by the Authority due to discrepancies between the loan amortisation schedule and the schedule provided for my examination.

#### DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I was unable to express an opinion on the financial statements of NICTA for the year ended 31 December 2011.”

#### 28.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit on the accounts and records of the Authority for the periods ended 31 December 2010 and 2011 were issued on 21 March 2014 and 26 May 2014 respectively. These reports contained similar observations, hence only the 2011 observations are reproduced below.

#### Main Operating Account Stale Cheques – K1,137,776

My examination of the Authority’s Main Operating Account year-end bank reconciliation revealed outstanding cheques totaling K1,961,811 at 31 December 2011. Out of this amount, cheques amounting to K1,137,776 had been outstanding for over six months. Further, cheques totaling K1,088,454 have been unrepresented since December 2010 and these cheques are considered stale and need to be written back to the cashbook. I requested Management provide explanation for the long outstanding cheques. Management responded to my observation as follows: “We have noted the audit observations on the bank reconciliation and hereby confirm that due to an oversight on our part in not clearing these cheques in the MYOB as presented cheques, the bank reconciliation statements reported a significant amount of cheques as unrepresented. The oversight is attributed to the sudden departure of our Accountant and the subsequent manpower changes in

the Finance Branch.”

#### Trade Debtors Over 90 Days

My review of the Aged Debtors Listing revealed that the receivables aged over 90 days amounted to K6,225,436 which represents 66 percent of the total trade debtors balance. I was informed that the Authority does not have a properly updated database of all its existing customers especially in the Licensing Department. Because of this weakness, some customers who had gone out of business and others that are facing liquidity problems are still being invoiced inflating the debtors balance, without the actual receipts been realised. Hence, debtors’ balances continue to build up over time resulting in the overstatement of receivable balance.

I sought explanation from Management and they responded to my observation as follows: “Audit observation on the outstanding debtors over 90 days is noted. We advised that these debts relate to invoices issued in 2009 and 2010 for various license renewals during PANGTEL’s regime.

We wish to further advice that these outstanding debts will be treated as doubtful debts wherein adequate provisions will be put through the accounts, to be spread over three year period beginning in 2012 until balance is fully provided for as a doubtful debt.

Management will seek Board approval to write off the debts against the provisions, following a formal policy on bad debts provisions to be submitted to the Board for its consideration and approval during Board meeting No.20 to be held on 30 May 2014.”

#### Refundable Rental Bonds – K20,574

The Authority disclosed the total Rental Bond balance as K79,456 at the year end. I was not provided with the lease agreements for accommodation rental between landlords and the Authority on behalf of employees for rental bond payments totaling K20,574. I was unable to ascertain the accuracy of the Rental Bond balance as disclosed in the financial statements.

Management responded to my query as follows: “We noted your observations and have taken remedial action to address the issues highlighted in the management letter, including ensuring all current lease agreements are maintained in a central location with our property and admin branch of the department.”

#### Legal Fees – K100,000

I noted that an improper payment was made by the Authority via Cheque Number 419874 for K100,000 to Mileng Lawyers on 14 July 2011 following a termination of a Retainer Agreement with Mileng Lawyers. The Authority raised the cheque made payable to Mileng Lawyers for K100,000. However, I noted that the deposit was made in two parts. Only K25,000 was deposited into the firm’s account while the remaining K75,000 was deposited into an account named Mr. Ian Godfrey Mileng. The payment should have been made wholly to Mileng Lawyers as the Contract was between Mileng Lawyers and the Authority.

Management responded to my observation as follows: “We have noted the audit observation with respect to the split payment and advice that the split in payment was done at the request of the Principal Owner, Mr. Ian Godfrey Mileng. In view of the audit observation and the implications

involved, please be assured that this practice will not occur again. Mr. Mileng has since been appointed to the position of Manager Legal Services under NICTA.”

Three Quotes not obtained – K194,162

The PFMA Act requires that all statutory organisations obtain three written quotations from different suppliers for goods and services for which the cost is above K5,000. However, I observed that the Authority made five payments each costing over K5,000 on one quotation. Further to this, I noted that the Authority did not maintain a Quotations Register to record all quotations obtained for goods and services acquired.

Management responded to my observation as follows: “We noted your observation and want to assure you that procurement procedures and controls is considered adequate in our view. That said, we will endeavor to ensure the audit recommendations is observed at all times when procuring goods and services, where cost price exceeds the threshold limits including maintenance of a quotation register for purposes of transparency.”

Rental Payments – K115,444

I observed that rental payments totaling K115,444 paid by the Authority to various landlords for staff accommodation rental were not substantiated against the lease agreements. I was not able to verify rental payments paid as per the agreed rental rates. I was informed that the lease agreements were kept at the office of the Director for Corporate Services. They were not provided for my review and verification.

Management responded to my observation as follows: “We noted your observation and have taken remedial action to address the issues highlighted in the management letter. From 2012 and onwards we have all lease agreements in place for all the staff who are on rented accommodation.

This information will be made available when 2012 audit commences. Furthermore, we wish to assure audit that all rental payments are paid based on limits imposed by NICTA’s Rental Subsidy Schedule that was approved by the Board.”

Board Meeting Minutes

My review of Board Meeting Minutes (Board Meeting No. 0007/2011) revealed that the Board had discussion on the summary of legal proceedings for and against NICTA. In the discussion of this agenda, the Board noted that NICTA has in total thirty legal cases, fourteen of which were carried over from PANGTEL and sixteen from the Independent Consumer and Competition Council (ICCC). Of these sixteen cases, six have been settled and ten were still pending along with the fourteen from PANGTEL. The status of these legal cases and the financial implications were not made known to me at the time of the audit.

Management responded to my observation as follows: “We have duly noted the implications and recommendations in respect of the pending legal cases for and against NICTA. We advise that the sixteen cases transferred from ICCC to NICTA were in respect of the interconnection dispute between Telikom, Digicel and ICCC (transferred to NICTA) and all sixteen cases have been resolved by mutual discontinuance by the parties in 2012. The remaining pending legal matters are at various stages of the court processes and therefore beyond the control of the Board and Management.”

## 28.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Authority for the year ended 31 December 2012 had been submitted for my inspection and audit and arrangements were being made to commence the audit without delay.

The financial statements for the year ended 31 December 2013 had not been submitted for my inspection and audit.

## 29. NATIONAL MARITIME SAFETY AUTHORITY

### 29.1 INTRODUCTION

#### 29.1.1 Legislation

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

#### 29.1.2 Functions of the Authority

The functions of the Authority are to:

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

### 29.2 AUDIT OBSERVATIONS

#### 29.2.1 Comments on Financial Statements



My report to the Ministers under Section 8 (4) of the Audit Act on the Authority's financial statements for the year ended 31 December 2012 was issued on 14 May 2014. The report contained Qualified Opinion as follows:

National Maritime Safety Authority

#### “BASIS FOR QUALIFIED OPINION

##### Fees and Levies

The Operating Revenue was stated as K24,400,355 in the financial statements. Included in this account balance was revenue earned from fees and levies of K21,752,493. In my review of the billing and collection of the various fees and levies collected, I noted that there was no proper and accurate system or database to capture all the foreign vessels operating in PNG territorial waters. Further, the Authority did not keep proper, accurate and complete information such as name of the vessels, owner, length of vessels, and the place of registration. I noted that billing and collection of these fees and levies were based on the information provided by the shipping agents which was considered unreliable. In the absence of a proper database and a comprehensive revenue collection system, I was unable to state whether the revenue billing and collection by the Authority is accurate and complete.

#### QUALIFIED OPINION

In my opinion, except for the effects of the matter referred to in the Basis for Qualified Opinion paragraph:

- (a) The financial statements of National Maritime Safety Authority comply with generally accepted accounting practice and give a true and fair view of the financial position of the Authority as at 31 December 2012 and the results of its operations and its cash flows for the year ended on that date; and
- (b) Proper accounting records have been kept by the Authority as far as appears from my examination of those records.”

#### 29.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the audit and inspection of the accounts and records of the Authority for the year ended 31 December 2012 was issued on 14 May 2014. The report contained the following observations.

##### Personnel Files

During the course of the audit, I noted that the personnel files were not properly updated to enable me to verify the pay rates that were current and applied during the year under review. Most national contract officers three years contracts expired around 8 September 2011. I sighted only the reappointment letters in the personnel files of the officers. The personnel files were not updated with these records at the time of my audit.

I brought this matter to the attention of Management and they responded as follows: “Management acknowledged that due to staff turnover and the recruitment of the new Human Resource Manager, Management will immediately address this issue and update staff personnel files”.

## Contract/Terms of Reference

The engagement contract or terms of reference with Leahy Lewin Nutley Sullivan Lawyers was not provided to me during my review. The NMSA Act 2003 (Section 31) clearly states that engagement of Consultants including legal counsels were to be engaged by the Authority on terms and conditions fixed by the Board and as such the engagement of the lawyers had violated the particular section of the NMSA Act. Proper Authorisation and execution of this service should have come from the Board as stipulated in the Act.

I sought Management's explanation and they responded as follows: "Management acknowledged non-compliance in procurement standard policies in engaging the service of Leah Lewin Nutley Sullivan Lawyers. Management will ensure proper financial processes are followed when procuring services and committing funds".

## 29.3 STATUS OF FINANCIAL STATEMENTS

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

## 30. NATIONAL MUSEUM AND ART GALLERY

### 30.1 INTRODUCTION

#### 30.1.1 Legislation

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

#### 30.1.2 Functions of the Museum

The main functions of the Museum are to:

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

### 30.2 AUDIT OBSERVATIONS

#### 30.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the Museum's financial statements for the years ended 31 December 2009 and 2010 were issued on 18 November 2013 and 5 May 2014 respectively. These reports contained similar Disclaimer of Opinions, hence only the 2010 report is reproduced as follows:

## “BASIS FOR DISCLAIMER OF OPINION

### Accounting System

The Museum did not have a proper basis for systematic preparation of financial statements. Consequently, the financial statements, trial balance and the cashbook presented for audit review could not be relied upon. The Museum did not maintain necessary accounting records and documents such as receipt books, assets registers and expenditure records which should form the basis of the preparation of the financial statements. In the absence of these records and documents, I was not able to place any reliance on the computer generated Access-based General Ledger which was used as the basis for the preparation of the financial statements. I therefore, could not extend my audit procedures to perform sufficient tests to verify the validity and accuracy of the figures reflected in the financial statements.

### Statutory Records

I noted that the balances presented in the financial statements were derived from the general ledger and trial balance. However, I observed that there were significant variances between the financial statement balances and general ledger balances. As such, I was unable to reconcile these balances due to lack of proper and reliable accounting records.

### Cash at Bank – K424,555

The Museum disclosed its bank balance as K424,555 at 31 December 2010. During my examination, I noted that the JK McCarthy Bank Account and Museum Book Shop Account were not reflected in the general ledger and the financial statements submitted for my review. Further, transactions that took place from these bank accounts and the Project Account were not documented and incorporated into the Institute’s financial statements together with those from the Main Operating Account. I was also not provided with the independent bank confirmation for these undisclosed bank accounts for my review. As a result, I was unable to ascertain the accuracy and completeness of the total bank balance of K424,555 disclosed at the year end.

### Government Grant – K3,491,500

During my review of the Government Grant Account, I noted that there were significant variances between the balances of Grants stated in the Financial Statements to actual Grants received per the bank statements. I observed that the Cash Warrants issued by Finance and Treasury were overstated by K4,738,700 compared to the cash recorded in the financial statements and the amount disclosed in the bank statements. The Museum was unable to provide satisfactory explanation for the difference.

### Fixed Assets – K1,908,898

The Museum did not properly maintain and update its Assets Register with the details of acquisitions and disposals during the year. During my review, I noted that the JK McCarthy Museum and other land and improvements in Goroka were valued at K700,000. The Museum also had seventeen other land improvements in Port Moresby, however, the Museum only presented a total land and building value of K621,646 in its financial statements.

Furthermore, I noted that artifacts and science collections have accumulated over many years and

hence there was a large volume of collections and artifacts for which there was no proper database system maintained to record, update and revise the collections periodically. In the absence of such proper documentation, the correctness, completeness and existence of these collections could not be verified.

Expenditures – K6,165,814

I noted that the General Ledgers for the expenditure accounts did not agree to the financial statements. As a result, I was unable to ascertain the accuracy and completeness of the total expenditure of K6,165,814 as disclosed in the financial statements.

Salary And Allowances (Payroll) – K2,068,323

National Museum and Art Gallery

During my examination, I was not provided with the payroll summaries for four fortnights to verify the payments made during the year. I noted a difference of K93,598 between the payroll summary and the financial statements. As a result, I was unable to state whether the amount has been fairly stated in the accounts.

#### DISCLAIMER OF OPINION

In my opinion, because of the significance of the matters described in the Basis for the Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient audit evidence and accordingly, I was unable to express an opinion on the financial statements of the PNG National Museum and Art Gallery for the year ended 31 December 2010.”

#### 30.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the audit and inspection of the accounts and records of the Museum for the years ended 31 December 2009 and 2010 were issued on 18 November 2013 and 5 May 2014 respectively. These reports contained similar observations, hence only the 2010 observations are reproduced.

#### Non-Submission of Financial Statements

The Museum has not prepared and submitted its financial statements to my Office before 31 March 2011 to enable me to conduct the audit and issue the report within the timeframe stipulated by the Law. Consequently, the Museum had breached Sections 63 (2) and 63 (4) of the PFMA.

#### Acquittal of Travel Related Expenses

During my examination, I noted that payments relating to travel and subsistence totaling K151,595 paid to staff during the year were not acquitted by officers of the Museum after travel which was contrary to the requirements of the PFMA.

#### Personnel Files

During my review on the Museum’s personnel files, I noted that the files were not properly

maintained and updated on a regular basis. Some employees did not have employment contracts, appointment letters and other staff advices relating to salary and allowances. Although, some employees had employment contracts in their files, the rates of salaries and allowances did not correspond to the rates on which salaries and allowances were paid to them. Further, salaries/wages declaration forms and leave records of employees were not properly maintained.

As a result, I was not able to verify the rates on which some of the casual employees were paid their wages since their personnel files were not provided for my review.

### Internal Control Weaknesses

Other internal controls breakdown and weaknesses noted during my audit are summarised in the subsequent paragraphs:

- \* Board of Trustees Meeting Minutes for the third and fourth meetings were not signed by the Chairman in order to confirm the Minutes were true and correct. In addition, I was not provided with the Meeting Minutes for the first and second meetings;
- \* Due to unavailability of receipt books, I was unable to verify whether the receipts were properly recorded and promptly banked into the Museum's Bank Accounts;
- \* Payroll records for pay period ending 6 May, 20 October, 17 November and 16 December 2010 were missing from the payroll file;
- \* The Institution did not maintain any schedules and calculations of all Contract Gratuities paid to its contract officers during the year;
- \* I was not able to substantiate the validity and the authenticity of payments amounting to K9,267 due to insufficient or missing supporting documents;
- \* There were no Terms of Reference or Service Agreements between the Museum and its various service providers;
- \* I noted that the Museum did not maintain proper budgetary control over several items which resulted in deviations of actual from budgeted amounts;
- \* The Museum has neither maintained any records for petty cash, nor done any reconciliations;
- \* Leave records of employees of the Museum were not properly maintained by the Human Resources Department. I was not able to determine when the leave fares were paid and verify if employees were qualified for recreational leave and leave fares in the absence of the leave records;
- \* I noted that the Museum has not obtained the Board's approval prior to purchasing of the office vehicle from Boroko Motors at a cost of K124,316.76 on 21 September 2010;
- \* A schedule showing all Board of Trustees expenses was provided for my verification. However, these payments could not be verified to the cashbook and the payment vouchers or other supporting documentation. Further, approved schedule of rates of the stipend for the Board of Trustees was not provided for my verification; and
- \* For the 2011 and 2012 audits, Management of the Museum had not submitted its responses to my Management Letters dated 25 October 2013 despite numerous reminders to enable me to include their views as part of this report.

### 30.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Museum for the years ended 31 December 2011 and 2012 had been completed and the results were being evaluated.

The Museum's financial statements for the year ended 31 December 2013 had not been submitted for my inspection and audit.

## 31. NATIONAL NARCOTICS BUREAU

### 31.1 INTRODUCTION

#### 31.1.1 Legislation

The National Narcotics Bureau was established in April 1992 by the enactment of the National Narcotics Control Board Act 1992.

#### 31.1.2 Functions of the Bureau

The principal functions of the Bureau are to make recommendations to the Board on policies, plans, matters or projects relating to abuse of drugs; coordinate and monitor the Government and non-Government drug education, awareness and rehabilitation program, and conduct surveys and gather and evaluate information, on the consumption, cultivation, trafficking and manufacture of drugs.

### 31.2 AUDIT OBSERVATIONS

#### 31.2.1 Comments on Financial Statements

My reports to the Minister under Section 8 (4) of the Audit Act on inspection and audit of the accounts and records of the Bureau for the years ended 31 December 2008 and 2009 were issued on 18 November 2013. The reports contained similar Disclaimer of Opinions, hence only the 2009 report is reproduced.

#### “BASIS FOR DISCLAIMER OF OPINION

##### Limitation of Scope regarding Opening Balances

My report for the year ended 31 December 2008 was a disclaimer of opinion due to limitation of scope of audit on opening balances. I was therefore, not able to satisfy myself as to the accuracy and completeness of the opening balances of the Fixed Assets, Cash at Bank and Surpluses.

Since these opening balances entered into the determinations of the results of operations and cash flows of the National Narcotics Bureau in 2009, I was unable to determine whether adjustments to the results of operations, Fixed Assets and Cash at Bank might have been necessary for the year ended 31 December 2009.

##### Limitation of Scope regarding Accounting Records

The National Narcotics Bureau did not maintain adequate and proper accounting records and registers to form the basis for a systematic preparation of the financial statements. There were no proper commitment control ledgers and documentary evidence in support of the account balance reported in the financial statements. There was a serious breakdown in the accounting system as a whole which effectively meant that I was unable to place any reliance on the completeness and accuracy of the accounts.

The financial statements were poorly prepared and had no proper supporting documentation or reconciliation and were prepared from incomplete and insufficient records resulting in the

limitation in my audit scope. As a result, it was impracticable to extend my audit procedures sufficiently to determine the accuracy of the information recorded in the financial statements.

The following deficiencies were highlighted:

\* In Note 4 to the financial statements, Fixed Assets were stated as K1,573,178. However, the Bureau did not maintain a proper, complete and accurate fixed assets register to record the details and movements of assets under its custody and control. Physical inspection of certain assets against the records to confirm their occurrence and existence was not possible because of the absence of a proper register. As a result, I was unable to determine the completeness, existence, accuracy and valuation of the fixed assets valuing K1,573,178;

\* Cash at Bank was stated as K6,674 in the financial statements. However, the respective bank reconciliation statements were not properly reconciled, checked and verified by any accountable officers. I was not able to sight some of the bank reconciliations to trace the closing balances of the preceding month to the succeeding opening balances; and

\* A surplus of K6,674 was determined at the end of the year after taking into account receipts of K2,794,400 and payments of K2,791,282 during the year ended 31 December 2009. However, I was not provided the respective supporting documentation and the explanations for the net variances of K1,528,881 and the missing paid vouchers totaling more than K1,000,000. As a result, it was impracticable for me to measure, confirm and verify the correctness and the propriety of the income and payment made during the year to arrive at the surplus disclosed in the financial statements.

#### DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of 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 the National Narcotics Bureau as at 31 December 2009 and of its performance for the year then ended.”

#### 31.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on inspection and audit of the accounts and records of the Bureau for the years ended 31 December 2008 and 2009 were issued on 18 November 2013. These reports contained similar observations, hence only the 2009 observations are reproduced.

#### National Narcotics Bureau

##### Board of Directors

The National Narcotics Bureau was operating without a Board since 2002. The National Narcotics Bureau Act 2002 (Sections 3, 4 & 5) states that there should be a Board established to initiate and implement policies on drug abuse, legislation covering all aspects of drug abuse, advise the Government on all international aspects of drug abuse and other functions as stated in Section 7 of the Bureau’s Act. Consequently, I informed the Board that its corporate governance structure was weak and lacked executive direction and control.

In response, Management informed me that the appointment of Board of Directors is done by the portfolio Minister and the NEC under the NNB Act and Regulatory Statutory Act 2004.

Accounting, Administration and Procedures Manual

The Bureau did not have an Accounting, Administration and Procedure Manual in place for its daily operations. The purpose of this Manual is to ensure that assets are safeguarded, financial statements are in conformity with Generally Accepted Accounting Principles and that finances are managed responsibly. In the absence of this documentation relating to systems and controls, I had no basis to measure the standards of operations in existence during the year ended 31 December 2009.

I was informed that the current Director had realised the importance of this Manual and opted to outsource the preparation of the Manual and will do so once funding is secured.

### Staff Appraisal

I noted that there were no strategic control and monitoring of staff performance as there were no staff appraisals conducted to date by the Bureau. Staff appraisal is an instrument to measure, review and evaluate an employee's knowledge and skills, requirements of the job, feedback on the level of performance against agreed criteria, and planning for training requirements. This may also be used to plan and deal with career development and poor performances.

Management informed me that it was conducting staff performance appraisals and records were forwarded to the Department of Personnel Management for salary increments but its human resources department failed to keep those copies/records on respective officer's personal files.

### Contract of Employment

Contracts of employment for senior officers were not signed or renewed. A signed employment contract is a legally binding contract and often contains terms and conditions of employment. As required under Section 42 (1) of the Public Service Management Act 1995 an officer appointed to a senior management position shall be employed under, and shall hold office with terms and conditions of the contract of employment with the State. As such, I was unable to determine the validity, correctness and legality of the employment capacity for several senior officers as their contracts were not signed or renewed.

Management concurred with my observations and admitted that the respective contracts were not signed and renewed because of its senior management instability. However, I was assured that under the new refined structure, senior officers' contracts will be renewed.

### Missing Records

In my review of the accounting records, I noted that some of the Bureau's records have been misplaced and records were not properly kept up to date for audit purposes or even for the Bureau's own internal management purposes. As I was unable to obtain sufficient and appropriate audit evidence, I queried Management and it responded that the records were lost due to fire fighters hosing water into the building to stop fire from spreading when the next building (currently Westpac, Musgrave Branch) was on fire.

### Report under Public Finances (Management) Act

The Bureau is required to submit an annual report on performance and management and a quarterly report on all investment decisions, a detailed report on investments, performance and returns for each year and a five year investment plan (up-dated each year) setting out investment policies, strategies and administrative systems to be pursued and providing forecasts of investment flows and returns. However, I noted that Management did not submit its relevant



reports as required under Section 63 (2) of the PFMA to the Minister for the years ended 31 December 1997 to 2007.

### 31.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Bureau for the years ended 31 December 2010 to 2012 were completed and the results were being evaluated.

The Bureau had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit despite reminders.

## 32. NATIONAL RESEARCH INSTITUTE

### 32.1 INTRODUCTION

#### 32.1.1 Legislation

The National Research Institute (NRI) was established under the Institute of Applied Social and Economic Research Act (Chapter 165). The name of the Institute was changed from 'PNG Institute of Applied Social and Economic Research' to 'National Research Institute' following the approval of the NEC through its Decision No. 42/90 of 7 March 1990.

The Institute of Applied Social and Economic Research (Amendment) Act 1987 came into operation on 1 January 1988, and on this date, the promotion and cultural functions of the former Institute of PNG Studies; and functions to do with Educational Research for National and Provincial Departments of Education carried out by the former Educational Research Unit (UPNG), formed part of the National Research Institute.

#### 32.1.2 Functions of the Institute

The functions of the Institute include the promotion of research into PNG society and economy; the undertaking of research into social, political and economic problems of PNG in order to formulate practical solutions to such problems; where practicable, the provision, by agreement with the body concerned, of consultancy services to the Government and to Government institutions; the promotion of the functions and objects of the Institute of PNG Studies; and research into all aspects of education for National and Provincial Departments of Education.

### 32.2 AUDIT OBSERVATIONS

#### 32.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on inspection and audit of the accounts and records of the Institute for the year ended 31 December 2012 was issued on 30 April 2014. The report did not contain any qualification.

#### 32.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2012 was issued on 30 April 2014. The report contained the following observations.

## Title Deeds to Leasehold Land

The Institute is yet to obtain Title Deeds for three properties located at Section 482 Allotment 61, Section 482 Allotment 62 and Section 484 Allotment 35. These three properties were registered under Mimino and Associates and not under the Institute's name. I drew the Institute's attention to this and I was advised that the transfer process was still in progress.

## National Research Institute

### Appointment of Council Members

The Institute had not appointed the Chairman and the Community Representative of the National Research Institute Council that was expired on 17 January 2010. Management advised that attempts to have their terms renewed had not progressed due to frequent changes of Ministry of Higher Education, Research, Science and Technology and they are currently working on this issue.

### Travel Acquittal

The Institute did not maintain a proper Travel Advances Register for all duty travels and related expenses. As such, I noted that several instances of travel advances were not properly acquitted after the completion of duty travel. I recommended Management to maintain a Travel Advance Register and strictly follow the NRI Financial Operations Manual by acquitting within 14 days after completion of duty travel. Management informed me that the Institute would comply with this requirement.

### Accounts Receivable - K187,123

The Institute disclosed GST Receivable as K138,354 at 31 December 2012. During my audit, I noted that the Institute has failed to prepare and lodge returns to the IRC on a monthly basis. I recommended Management prepare and lodge monthly returns to the IRC on a timely basis. Management responded that due to staff shortage this was not done.

## 32.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 31 December 2013 have been submitted and arrangements were being made to commence the audit at the earliest possible.

## 33. NATIONAL ROAD SAFETY COUNCIL

### 33.1 INTRODUCTION

#### 33.1.1 Legislation

The National Road Safety Council was established under the National Road Safety Council Act 1997. This Act came into operation on 1 May 1998. The Council commenced its operational activities from May 1998.

#### 33.1.2 Functions of the Council

The principal functions of the Council are to:

- \* Determine the goals and objectives in the promotion of road safety in PNG;
- \* Advise the National Government on all matters relating to road safety which the Council may from time to time consider desirable or which the National Government may refer to the Council;
- \* Recommend to appropriate authorities the adoption of precautionary measures of all kinds calculated to prevent accidents involving the use of motor vehicles;
- \* Foster, promote and conduct educational campaigns designed to stimulate compliance with acceptable and proven principles of road safety;
- \* Enlist the aid of all agencies and individuals who in the opinion of the Council are able to promote any acceptable and proven principles of road safety;
- \* Procure sufficient personnel and finance for purposes of the Council and to co-ordinate and control their use;
- \* Foster and promote road safety research;
- \* Determine measures which will lead to the improvement of road safety and implementation of such measures;
- \* Monitor and evaluate the effectiveness of programs and strategies of organisations involved in the promotion of road safety;
- \* Formulate, monitor and update an appropriate long-term national program for the improvement of road safety in PNG and to supervise its implementation;
- \* Consider and implement any other aspects of road safety as may be referred to it from time to time;
- \* Perform such other functions as are given to it under this Act or any other law;
- \* Advise the Minister and the NEC on all or any of its functions specified in this section; and
- \* Generally to do all such things as may be incidental or consequential upon the exercise of its powers and the performance of its functions.

## 33.2 AUDIT OBSERVATIONS

### 33.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act, on the Council's financial statements for the year ended 31 December 2012 was issued on 28 April 2014. The report contained a Qualified Opinion.

#### "BASIS FOR QUALIFIED OPINION

##### Traffic Infringement Fees – K1,495,074

The Council disclosed in its financial statements K1,495,074 as Motor Traffic Infringement Fees collected for various offences committed by motor vehicle users. The break-up and the supporting documents in relation to this balance were not provided for my verification and examination. As such, I was unable to verify the accuracy and completeness of this balance as at 31 December 2012.

##### Fixed Assets – K1,561,756

I noted that the Council's accounts are prepared on a cash basis. As such, the Fixed Assets Register is a vital record for recording all the assets purchased by the Council, their current

condition and their movements. I noted that the Council did not maintain a proper Fixed Assets Register. The Fixed Assets Register maintained by the Council did not include all the assets disclosed in the Statement of Assets. Further, supporting documents for new assets purchased during the year totalling K450,585 were not provided for my examination. As such, I was unable to verify the accuracy and completeness of the fixed assets balance as disclosed in the financial statements.

## QUALIFIED OPINION

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

- (a) The financial statements are based on proper accounts and records; and
- (b) The financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Council as at 31 December 2012 and the results of its financial operations for the year then ended.”

### 33.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the audit and inspection of the accounts and records of the Council for the year ended 31 December 2012 was issued on 28 April 2014. The report contained the following observations.

#### National Road Safety Council

##### Travel Advances Acquittals

My review of the Travel Expenses revealed that the Council has not maintained a Travel Advances Register to monitor advances given to various staff members. As a result, officers’ overseas and domestic duty travels during the year were not acquitted as required under the Financial Management Manual Part 20. I sought Management’s explanation and they responded as follows: “We now have in place Finance Form 16, the Duty travel Advance Form and Register for both domestic and overseas travels. The Officer on duty travel acquits the expenses while on duty and duly signs on the acquittal form.”

##### Personnel Files

My review of the personnel files revealed that salary history cards, employment letters, birth/marriage certificates and salary declaration forms were not maintained for most of the files examined. In the absence of such valid documents, I was unable to verify each officer’s salary/wage and allowances paid and accruals provided for at year end. I requested Management explanation and they responded as follows: “In 2012 we have had change in management and the previous management did not maintain most of the staff files as you have noticed. One of the Senior Human Resource officers (Assistant Manager –HR) has been demoted and transferred to the enforcement Division and replaced with another officer. We have a vacancy in the position of Manager –HR and now looking at employing a well- qualified person to fill in this particular position.”

##### Procurement Processes

My review of the Council's procurement processes revealed the following irregularities:

- \* Payments were made without observing proper procedures;
- \* Three written quotations per the Financial Management Manual Part 12(3) for amounts K5,000 and less than K100,000 were not obtained; and
- \* Payment vouchers selected for verification were missing rendering no audit trails.

I brought these deficiencies to the attention of Management and they responded to my concern as follows: "The current and new Management was tirelessly working on achieving on all these issues."

#### Damaged Motor Vehicle

During my review of the Council's fixed assets, I noted that the Executive Director's official vehicle (Toyota Land Cruiser – Registration No. BDV 596) was involved in a car collision leaving the vehicle at a disposable state. The Police Incident Report and Conviction Notice confirmed the driver of the other (Digicel) vehicle was convicted for drink driving and caused the accident.

I was unable to ascertain whether the Council was compensated for the damage caused by Digicel (PNG) Limited. I sought explanation from Management and it responded to my query as follows: "This particular vehicle concerned involved in an accident and the driver of the other party Digicel PNG was convicted and the court case is still ongoing."

We have engaged a Lawyer to take up our case against Digicel and the Lawyer has already given notice to sue the other party and we were advised by the Lawyer that if Digicel do not respond positively upon the notice then the Lawyer will give summons and we will update you from time to time."

#### Development Budget – K1,000,000

My review of the Development Budget Grant revealed that K1,000,000 was transferred as development grant to the Council. I was not provided with supporting documents such as submissions and proposals that would give detailed purpose and scope of the grant transferred. Due to the absence of source documents, I was unable to comment on whether the grant received was expended according to priority areas of the Council. I requested Management to provide explanation and they responded as follows:

"In 2012 we received K1m as development budget allocation from the National Government after we submitted various projects for funding from 2012 National Government budget. We submitted for K5m but received only K1m. That K1m was spread among the several projects we had in place, those projects were on-going.

We were not provided with any documents but advised by the Department of Finance & Treasury that they have raised warrants of funding and directly credited our bank account. We asked the two Departments several times to provide the necessary documents K1m budget allocation but they could not provide any up to now."

### 33.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Council for the year ended 31

December 2013 had not been submitted for my inspection and audit.

## 34. NATIONAL ROADS AUTHORITY

### 34.1 INTRODUCTION

#### 34.1.1 Legislation

The National Roads Authority was established by the National Roads Authority Act 2003 and came into operation in 2004.

#### 34.1.2 Objectives of the Authority

The objectives of the Authority are to:

- \* Raise funds for the maintenance of public roads;
- \* Ensure the efficient preparation of effective annual road maintenance programmes; and
- \* Ensure that all routine, specific and emergency maintenance of roads and road rehabilitation and reconstruction funded by the Authority are executed in a transparent, effective and efficient manner, in order to optimise the contribution of road assets to the economic and social development of PNG.

#### 34.1.3 Functions of the Authority

The functions of the Authority are to:

- \* Establish and operate a Road Fund from road user charges, budget and other sources;
- \* Establish resources and an organisation to enable the Authority to perform its functions;
- \* Maintain and manage updated data on asset conditions using the Road Asset Management System, Bridge Inventory and Bridge Maintenance and other approved systems;
- \* Formulate and determine prioritised annual road maintenance plans and programmes using the Road Asset Maintenance System, Bridge Inventory and Bridge Maintenance and other approved systems to be supported by the road sector cost recovery revenues;
- \* Establish annual road maintenance funding requirements in accordance with the future annual road maintenance plans;
- \* Determine and implement road user charges in accordance with the financial resource requirements of the annual road maintenance plans;
- \* Deliver the required routine, specific and emergency road maintenance in accordance with the maintenance service levels established for each class or type of road, through the contracting of independent contractors, and to monitor and supervise the contracts as they are executed;
- \* Deliver road improvement, and road restoration when required, by undertaking the design studies necessary for the programmed road improvement or rehabilitation projects by:
  - ? Preparing corresponding construction plans, specifications, cost estimates, and the other documents required for the proper tendering of the programmed works;

? Monitoring and supervising the works as are executed, by such qualified consultants and/or contractors as are engaged; and

? Ensuring safety audits on design, construction, maintenance and safety aspects of road.

- \* Establish and sustain contract management capacity to ensure the validity of contracts and the effective management of contracts awarded for the execution of agreed road maintenance works and rehabilitation and reconstruction projects;

- \* Ensure that all contracts are tendered through a transparent and competitive procedure to ascertain economic efficiency and sustainability in delivery of road maintenance and rehabilitation works;
- \* Keep adequate records and to maintain a management information system which provides the Board and staff with accurate and timely information on commitments, expenditures and revenue for the purchase of consultancy and contracting services and other purchases and outlays;
- \* Report publicly and transparently on collection of user charges, revenues, and in detail on the use of the revenues on the road maintenance programs in accordance with internationally accepted accounting principles;
- \* Establish environmental management capacity;
- \* Provide a continuing programme of professional staff development and required skills training for non-professional staff; and
- \* Construct, erect or affix signs or marks on road transport infrastructure in accordance with the Motor Traffic Act (Chapter 243).

## 34.2 AUDIT OBSERVATIONS

### 34.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2011 and 2012 were issued on 21 March 2014 and 24 April 2014 respectively. The reports contained similar Qualified Opinions, hence only the 2012 report is reproduced.

#### “BASIS FOR QUALIFIED OPINION

##### Contract Balance and Retentions – K31,057,571

The Contract Balance and Retentions for the year ended 31 December 2012 was stated as K31,057,571 (2011:K8,547,985). The Authority recognised contract expense upon progressive job completion and not on a proportionate equitable basis on total contract amount. The Authority recognised a 56% of the contract balance at year end. However, I was unable to substantiate the measurement and the correctness of the account balance as no movements were recorded during the year ended 31 December 2012. Further, I observed that the subsidiary documentation provided for the basis of determination were not properly reconciled as movements were not accurately taken up and the rate used had no conservative basis. Consequently, I was unable to verify and confirm the measurement and the correctness of the account balance.

##### Fuel Levy Receivable – K10,873,520

The fuel levy receivable was stated as K10,873,520 in the financial statement at 31 December 2012, of which K524,215 relates to prior year levy receivables but were not collected during the year under review.

I was unable to confirm the accuracy, completeness and appropriateness of the prior year levy receivable balances as the Asycuda System Generated report from the IRC was not reliable.

#### QUALIFIED OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the

Basis for Qualified Opinion paragraphs:

(a) The financial statements of the Authority are based on proper accounts and records; and  
(b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Authority as at 31 December 2012 and the results of its financial operations and cash flows for the year then ended.”

#### 34.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Authority for the years ended 31 December 2011 and 2012 were issued on 21 March 2014 and 24 April 2014 respectively. These reports contained similar observations, hence only the 2012 observations are reproduced.

#### Statutory Accounts and Records

The Authority did not have any control mechanisms such as accounting manuals, operational guidelines and written policies. These records are supposed to be formally established, well documented and communicated to all levels and functions of the organisation and be used in daily activities by all personnel.

I further noted that the Authority did not have a Corporate Plan in place. A Corporate Plan is a formal statement that sets out strategic business goals to achieve optimum performance.

I recommended Management of the Authority develop such control mechanisms to achieve its Corporate objectives effectively. Management agreed with my observation and informed me that the Accounting Policy and Procedural Manual will be developed and implemented.

#### Bank Reconciliation Statement

Bank reconciliation statements were not prepared on a regular and timely manner. In my review, the reconciliations statements were prepared on an ad-hoc basis. Bank reconciliation is a vital control mechanism that identifies and rectifies discrepancies between the bank and cashbook balance. It also prevents overspending by keeping close control over cash flow management. In the absence of bank reconciliations, errors cannot be identified and corrected on a timely basis.

I recommended the Authority to properly implement control procedures over the bank reconciliation process. The Management agreed and informed me that due to staff turnover, bank reconciliations were not done on a regular and timely manner.

#### Staff Advance – K173,885

Salary Advances were stated as K173,885 in the financial statement at 31 December 2012. I noted that salary advances were allowed for school fees and other assistance without any policy guidelines on salary advance. I further noted that the Authority did not maintain an Advances Register to keep track of advances made and their subsequent recoveries.

Consequently, I recommended the Authority to maintain an Advance Register in compliance with the PFMA. Management informed me that a clear policy would be implemented and adopted to improve the situation.



## Former CEO Vehicle

My review of the Authority's fixed assets revealed that the CEO's designated motor vehicle (BDH 367) was under the custody of the former CEO, Mr Roy Mumu. I was unable to confirm the ownership of the said vehicle as there was no evidence of the transfer of ownership to the former CEO. I further noted that as per his contract of employment, the CEO may exercise his option to purchase the said vehicle at a price to be determined by the Authority. However, this determination had not been done and there was no evidence to show that the vehicle was purchased by the former CEO. Management agreed with my findings and informed me that the vehicle was still under his custody and that a final determination is yet to be done. Due to lack of proper documentation, I was unable to confirm whether the vehicle was purchased by the former CEO or returned to the Authority.

## Motor Vehicle Fleet

Physical inspection conducted over motor vehicles revealed that motor vehicles belonging to the Authority were registered using private plate numbers instead of "Z" number plate. State owned vehicles should be registered with "Z" number plates to signify government ownership. I recommended the Authority comply with the Government's directives. Management had agreed and informed me that corrective actions would be taken to comply with the requirements.

## Salary History Cards

The Authority did not maintain proper employees' salary and history cards. My review on the employees' personal files revealed that leaves (furlong, recreational, annual, maternity, sick, and compassionate) taken and leaves accrued were not correctly and accurately recorded and updated by the Authority. Inadequate record keeping may expose the Authority to the risk of paying incorrect employee benefits. Management agreed and informed me that improvements have been initiated with the introduction of Attaché Payroll System and staff history cards.

## Salary and Wages Tax Declaration Form

During my review of payroll processing, I noted that certain officers had no tax declaration form in their personal files. As a result, I was unable to determine the accuracy and authenticity of the dependent rebates claimed on salary and wage tax in compliance with the Income Tax Act 1959. Management had taken note of my audit findings.

## Leave Fare Entitlements

In my review of leave fare entitlements, I was unable to verify the validity and authenticity of leave fares paid for dependents as no birth certificates and tax declarations maintained for dependents.

According to the Public Services General Order (GO) 14.41, children under the age of 19 years that are wholly dependent and maintained by the officers are eligible for leave fares. As such, I was unable to verify and confirm the eligibility of the dependents and the validity of the leave fares paid. Management has taken note of my audit findings.

## Certificate of Compliance

My examination on contract expenses revealed that payments totaling K3,143,704 were made to

contractors who had expired Certificate of Compliance (COC). The IPA Business Investment Guideline on Income Reporting System stipulates that “where a contractor fails to produce a valid certificate of compliance (COC) to a company for services rendered, the company is required to deduct ten percent (10%) of total payment that is to be made to the contractor and remit that portion to IRC”. However, I noted that the Authority did not comply with the requirements of the IPA and IRC. In addition, the Authority did not request the contractors to provide renewed COC. Further, I did not sight the Certificate of Compliance for the payments made to contractors totaling K4,932,907. Management agreed with my audit findings and informed me that the situation was addressed since 2013.

#### Procurement Process

I noted that payments totaling K212,801 were made based on quotations instead of invoices and only one quotation was sighted for payment. The Authority did not comply with the Financial Management Manual, Part 12, Division 3 Para 9. Consequently, I was unable to determine whether the procurements made were transparent and procurements were made in accordance with the PFMA. Management agreed with my audit findings and informed me that necessary actions would be taken to improve the situation.

#### Internal Controls

My review of internal controls on cash receipting, bank reconciliation, payroll processing and procurement process revealed that there were no segregation of duties performed in those areas. I noted that only one officer was performing several tasks. I further noted that there were no independent checks done by an appropriate officer to ensure accounting procedures are in compliance with the requirements of the PFMA, Financial Instruction Manual and the General Orders of the Public Service.

Absence of segregation of duties and lack of independent review may open avenues for improper practice such as fraudulent act and embezzlement. Management agreed and informed me that the internal controls need to be improved with the recruitment of an Internal Auditor.

#### Report under Public Finances (Management) Act

The Authority is required to prepare and furnish to the Minister a “Performance and Management Report” of its operations for the year, a quarterly report on all investment decisions, a detailed report on investment performance and returns and a five year investment plan. However, I noted that Management did not submit its relevant reports as required under Section 63 (2) of the PFMA to the Minister for the year ended 31 December 2012.

### 34.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 31 December 2013 had been submitted and arrangements were being made to commence the audit at the earliest possible.

## 35. NATIONAL TRAINING COUNCIL

### 35.1 INTRODUCTION

#### 35.1.1 Legislation

The National Training Council was established under the National Training Council Act 1991. Although the Act came into operation on 5 December 1991, the Council formally began operating in April 1992 following its inauguration.

### 35.1.2 Objectives of the Council

The objectives of the Council are to:

- \* Foster the comprehensive development of training with regard to the needs and the resources of the country;
- \* Foster the co-ordination of training institutions so that the most effective use can be made of resources available for training which ensures increased productivity and capacity building in the workforce;
- \* Make the benefits of training as widely as possible;
- \* Plan and encourage the development of a system of training fitted to the requirements of the country and its people;
- \* Establish, preserve and improve standards of training throughout the country;
- \* Make the most effective use of the resources available for training related purposes in so far as this can be done by legislative and administrative measures; and
- \* Generally augment and support the role and functions of the Commission for Higher Education as specified in the Higher Education Act (Chapter 397).

### 35.1.3 Functions of the Council

The principal functions of the Council are to be responsible for supervising and managing the implementation of the National Training Policy and for monitoring, reviewing and revising the National Training Policy when necessary; to provide guidelines to the NEC, Provincial Government, and the in-service Training Institution's Governing Councils on any issues related to training; and to formulate and publish guidelines on human resource requirements, localisation and indigenisation issues and related matters.

## 35.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Council for the years ended 31 December 2010, 2011, 2012 and 2013 were completed and the results were being evaluated.

## 36. NATIONAL VOLUNTEER SERVICE

### 36.1 INTRODUCTION

#### 36.1.1 Legislation

The National Volunteer Service was established on 12 April 1990 under the National Volunteer Service Act 1990.

#### 36.1.2 Functions of the Service

The principal functions of the National Volunteer Service are to promote a spirit of sacrifice and service to the people of PNG; to provide labour, skills, education and training to the community for

development projects; to cooperate and assist National and Provincial Government agencies as well as other organisations whose goals include the development of the people of PNG, in achieving their plans and purposes; and to encourage and participate generally in the advancement of the development of PNG.

## 36.2 AUDIT OBSERVATIONS

### 36.2.2 Comments on the Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the National Volunteer Service financial statements for the years ended 31 December 2007, 2008, 2009 and 2010 were issued on 25 April 2014. These reports contained Disclaimer of Opinions, hence only the 2010 report is reproduced as follows:

#### “BASIS FOR DISCLAIMER OF OPINION

##### Limitation of Scope on Opening Balances

My report on the financial statements of the Service for the year ended 31 December 2009 was a Disclaimer of Opinion on limitation of scope in respect of Fixed Assets Register, Board Minutes, bank confirmations and receipts and payments. I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of the opening balances. Any adjustments that might have been found to be necessary on these opening balances would have had a consequential effect on the financial statements for the year ended 31 December 2010.

##### Limitation of Scope – Lack of Audit Trail

A substantial number of accounting records including general ledger, cashbook, payment vouchers, assets register, and receipt books were not maintained and provided by the Service for the year ended 31 December 2010 for my audit examination and review. As a result, it was impracticable to extend my audit procedures to determine the completeness and accuracy of the account balances in the financial statements at the year end.

##### National Volunteer Service

##### Bank Balance – K127,174

The financial statements disclosed the bank account amounting to K127,174 as at 31 December 2010 and this is the bank statement balance. The Service did not perform any bank reconciliations for the year under review and consequently, I was not provided with any monthly bank reconciliation statements and cashbook to validate the balance. I noted that the National Volunteer Service had not reconciled bank statement balance. As a result, I was unable to ascertain the accuracy and completeness of the bank balance for the year then ended.

##### Fixed Assets – K176,135

The financial statements disclosed fixed assets balance as K176,135 as at 31 December 2010. However, the Service did not furnish the Fixed Assets Register to show the balance on fixed assets. Further, my perusal of the records revealed that the Service have not disclosed the fixed assets movement during the year in the financial statements with each assets classification categories.

Consequently, I was unable to comment on the existence, completeness and accuracy of this balance for the year ended 31 December 2010.

Income – K1,161,449

The financial statements disclosed a total receipts of K1,161,449 comprising; government grants of K1,201,000, other funding of (K73,516) and bank opening balance of K33,964. The general ledgers, trial balance and other supporting documentation including receipt and deposit books in respect of the above income were not provided for my audit examinations and verification. As a result, I was unable to ascertain the accuracy and completeness of total income as disclosed in the financial statements.

Expenses – K1,127,484

The financial statements disclosed total expenses of K1,127,484 as at 31 December 2010. I noted that the cashbook, general ledger, trial balance and other supporting documentations including cheque butts and payment vouchers were not provided for my verification. As a result, I was unable to comment on the accuracy and validity of this balance due to lack of adequate supporting documentation.

Internal Control Environment

During my review, I identified significant weaknesses in the Service's overall internal control environment operated during the year ended 31 December 2010. The accounting system and internal control environment at the National Volunteer Service continued to be severely deficient. The inefficient management information system, inexperienced and/or incompetent staff and inadequate financial reporting structure had contributed to the undue delay in the preparation of the financial statements. The reports that were produced by the Service were further inaccurate and the management was unable to substantiate most of the balances in the general ledgers, mismanaged accounting records and other financial information. Further, I noted that the Service has no segregation of duties, nor employee records and entitlements within the Accounting and Finance Division. As a result, I was unable to place any reliance on the internal controls, completeness and accuracy of internal control systems for the year then ended.

National Volunteer Service

DISCLAIMER OF OPINION

In my opinion because of the significance of the matters described in the Basis for the Disclaimer of Opinion paragraphs, and the effects of any adjustments, if any, that might have been determined to be necessary had the limitations not existed and that I have not been able to obtain sufficient audit evidences and accordingly, I was unable to express an opinion on the financial statements of the National Volunteer Service for the year ended 31 December 2010."

36.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records for the years ended 31 December 2007, 2008, 2009 and 2010 were issued on 25 April 2014. These reports contained similar observations, hence only the 2010 observations are reproduced below.

## Council Meeting

The National Volunteer Service, under the National Volunteer Service Act 1990, Section 10(1), requires the Council to hold meetings as often as the business of the Services requires. The Council did not hold any meetings during the year under review. I recommended the Service hold meetings in compliance with the Act and Management concurred with my advice.

## Non-Compliance with Public Finances Management Act

The National Volunteer Service did not comply with the provisions of Section 63 (4) of the PFMA in the submission of its financial statements. The National Volunteer Service is responsible for the preparation and submission of the financial statements on a timely basis to my Office for audit and inspection of the accounts and records of the Service. I brought the matter to the attention of Management to submit its financial statements on a timely basis as the law requires and Management concurred with my request.

## 36.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Service for the years ended 31 December 2011 to 2013 were completed and results were being evaluated.

## 37. NATIONAL YOUTH COMMISSION

### 37.1 INTRODUCTION

#### 37.1.1 Legislation

The National Youth Commission was established under the National Youth Service Act 1991. This Act came into operation on 3 July 1991.

#### 37.1.2 Functions of the Commission

The functions of the National Youth Commission are to:

- \* Train youths in vocational and related livelihood skills and in self-discipline;
- \* Provide opportunities to enable youths to participate meaningfully in community activities;
- \* Promote self-reliance among youths and to discourage dependability on outside assistance;
- \* Provide the means to enable youths to contribute actively towards the maintenance of law and order, and establish better relationship between law enforcing agencies and the community;
- \* Assist and encourage youths to improve their education, and attain competency in numerical and communication skills;
- \* Provide the means for tertiary students to enter into the Service;
- \* Promote and maintain amongst youths acceptable social norms and values; and
- \* Generally do such supplementary, incidental or consequential acts and things as are necessary or convenient for carrying out its functions.

## 37.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Commission for the years ended 31 December 2012 and 2013 had not been submitted for my inspection and audit.

## 38. OFFICE OF CLIMATE CHANGE AND DEVELOPMENT

### 38.1 INTRODUCTION

#### 38.1.1 Legislation

The Office of Climate Change and Development (OCC&D) was created on 22 March 2010 through NEC Decision No. 54/2010. On the same date, the NEC in its Decision No. 53/2010 had noted and approved NEC Decision No. 181/2009 on the abolishment of formerly the Office of Climate Change & Environmental Sustainability (OCC&ES).

The former OCC and ES was created in 2009 and was operating under the Department of Environment and Conservation.

On 10 November 2011 the NEC through its Decision No. 96/2011 had approved to rescind and amend NEC Decision No. 53/2010, 54/2010 and 55/2010 and approved for the creation and establishment of the PNG Climate Change Authority (PNGCCA). However, SCMC in its meeting held on 22 May 2012 had withheld the submission of the organisational structure due to the certified governing Act not in place.

Then on 27 November 2012 the NEC approved to rescind whole of NEC Decision No. 96/2011 of 10 November 2011. As a result, establishment of the PNG Climate Change Authority was abandoned. However, Management of the OCC & D through dialogues with bureaucratic committees is currently pursuing to submit the 3rd Draft Bill in July 2014 to the NEC on the establishment of the PNG Climate Change Authority.

#### 38.1.2 Objective of the Office

The objective of the OCC and D is to provide a coordination mechanism at the national level for research, analysis and development of the policy and legislative framework for the management of climate change within the Government's National Strategy on Climate- Compatible Development (CCD) as per NEC Decision No. 55 of 2010.

#### 38.1.3 Functions of the Office

Major functional responsibilities of the Office are:

\* Policy development:

? Adopt and incorporate national strategies and plans on climate change compatible development into the national development strategies and plans;

? Coordinate and facilitate the implementation of the National's Strategy on Climate Compatible Development;

? Align national development policies and plans to ensure climate compatibility across different government departments;

? Commission research and development to support the development of a comprehensive greenhouse gas inventory and a more comprehensive understanding of the impacts of climate change in the country; and

? Formulate and refine the policy framework and legislation.

Office of Climate Change and Development

\* Coordination of projects and programs:

? Coordinate with relevant government departments, NGOs, Private Sectors and indigenous landowners (or local forest custodians) to implement and manage pilot projects, demonstration projects and programs;

\* Stakeholder management and consultation:

? Collaborate and coordinate with development partners to inform and improve upon the Government's preliminary policy initiatives;

? Coordinate the development of a robust Measurement, Reporting and Verification (MRV) system and a fair and equitable benefit sharing mechanism to protect rights and interest of resource owners; and

? Communicate to the people of PNG the benefits (economic, social and environmental) arising from the implementation of the National Strategy for Climate Compatible Development.

\* Funding and international negotiations:

? Implement a national financial strategy in collaboration with development partners to build capacity for Reducing Emissions from Deforestation and Forest Degradation Plus Conservation, Sustainable Forest Management and Carbon Stocks Enhancement (REDD+) and other aspects of climate compatible development; and

? Support Government of PNG with the international climate change negotiations and climate change funding in order to provide consistent and reliable data and finances to improve and sustain forest governance and livelihoods of the forest communities.

## 38.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Office had not submitted its financial statements for the years ended 31 December 2011, 2012 and 2013 for my inspection and audit.

## 39. OIL PALM INDUSTRY CORPORATION

### 39.1 INTRODUCTION

#### 39.1.1 Legislation

The Oil Palm Industry Corporation was established by the Oil Palm Industry Corporation Act 1992 which came into operation on 1 June 1992. Under the Act, all assets (other than land held by the State) and liabilities previously held or occupied by the Division of the Department of Agriculture and Livestock responsible for the provision of extension services to oil palm industry, were transferred to the Corporation at commencement date.

#### 39.1.2 Functions of the Corporation

The main functions of the Corporation are: to promote the development of the oil palm industry; to encourage the increase in productivity by efficient provision of extension services to smallholders; to provide advice and disseminate information and educate smallholders regarding oil palm production methods; and to consult, liaise and collaborate with the State and other agencies involved in the oil palm industry.

## 39.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December 2011, 2012 and 2013 had not been submitted by the Corporation for my inspection and audit, despite numerous reminders from my Office.



## 40. OMBUDSMAN COMMISSION OF PAPUA NEW GUINEA

### 40.1 INTRODUCTION

#### 40.1.1 Legislation

The Ombudsman Commission was established under the provisions of the Constitution of the Independent State of PNG. The principal objectives of the Commission are: to ensure that all governmental bodies are responsive to the needs and aspirations of the people; to help in the improvement of the work of governmental bodies and the elimination of unfairness and discrimination by them; to help in the elimination of unfair or otherwise defective legislation and practices affecting or administered by governmental bodies; and to supervise the enforcement of the Leadership Code.

#### 40.1.2 Functions of the Commission

The functions of the Commission are:

- \* To investigate on its own initiative or on complaint by a person affected, any conduct on the part of any State or provincial or local governmental, or other governmental body or a member or officer or employee of any such body, any member of the personal staff of the Governor-General, Minister or the Leader or Deputy Leader of the Opposition, or any other body or person as may be declared by an Organic Law or an Act of Parliament, to which the Leadership Code applies;
- \* To investigate any defects in any law or administrative practice appearing from any such investigation;
- \* To investigate any case of an alleged or suspected discriminatory practice within the meaning of a law prohibiting such practices; and
- \* Any functions conferred upon it by Part III Division 2 (Leadership Code) of the National Constitution.

### 40.2 AUDIT OBSERVATIONS

#### 40.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Commission for the years ended 31 December 2011 and 2012 were issued on 14 October 2013 and 21 February 2014 respectively. These reports did not contain any qualification.

#### 40.2.2 Audit Observation Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on inspection and audit of the accounts and records of the Commission for the years ended 31 December, 2011 and 2012 were issued on 14 October, 2013 and 21 February, 2014 respectively. These reports contained similar observations, hence only the 2012 comments is reproduced.

Ombudsman Commission of Papua New Guinea

#### External Parties Grants and Other Assistance

The Commission received benefits totalling K386,084 from the Australian Development Assistance

(AusAid) for the year in respect of the Law and Justices Sector Project and dispensed K359,632 within the set guidelines of the Annual Program Plan (APP) which is outside the Commission's normal business operations and is not subject to audit by me. The Commission is under an obligation to ensure full accountability of the funds expended and the Program is subject to annual audit by the Program auditors.

#### 40.3 STATUS OF FINANCIAL STATEMENTS

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

### 41. PACIFIC GAMES (2015) AUTHORITY

#### 41.1 INTRODUCTION

##### 41.1.1 Legislation

The Pacific Games (2015) Authority was established by the National Parliament under the Pacific Games (2015) Authority (as amended) Act 2011. This Act came into operation on 24 October 2011.

##### 41.1.2 Functions of the Authority

The principal functions of the Authority are to:

- \* Consult with the Pacific Games Association (PGA) and the Games Organising Committee (GOC) to ensure the effective implementation of the Host Contract;
- \* Authorise and direct collection and disbursement of funds to the Venue, Infrastructure and Equipment Committee (VIEC) and the GOC or other appropriate bodies or organisations for the holding of the Games and the construction or rehabilitation of the Games venues;
- \* Enter into and perform contracts for the construction and rehabilitation of the Games venues and ancillary works and services ;
- \* Exercise critical oversight over, and to ensure that transparent, efficient and economical expenditure of moneys so authorised or disbursed, or otherwise under its control;
- \* Liaise and consult with the GOC to ensure the efficient and successful running of the Games;
- \* Co-operate with and assist sporting and other bodies in stimulating interest in the preparation for the Games;
- \* Oversee the work of the VIEC to ensure the efficient and successful construction and rehabilitation of the Games venues; and
- \* Do all things ancillary to the foregoing.

#### 41.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the years ended 31 December 2011 and 2012 were in progress.

The financial statements of the Authority for the year ended 31 December 2013 had not been submitted for my inspection and audit.

### 42. PNG ACCIDENT INVESTIGATION COMMISSION

#### 42.1 INTRODUCTION

### 42.1.1 Legislation

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

### 42.1.2 Objectives of the Commission

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

### 42.1.3 Functions of the Commission

- \* The principal function of the Commission is the Investigation of aviation accidents and incidents;
- \* The Minister may, by notice in the National Gazette, direct the Commission to investigate any serious land or marine transport accident or incident;
- \* Where a direction is given under Subsection (2) all references to an “aircraft” shall be read as a reference to the vehicle or vessel or other form of transport involved in the accident or incident to be investigated;
- \* Without limiting the principal function under Subsection (1) the Commission shall also have the following functions:
  - ? Make such inquiries and investigations as it considers appropriate in order to ascertain the cause or causes of accidents or incidents;
  - ? Co-ordinate and direct all such inquiries and investigations and to determine which other parties, if any, should be involved in the investigation;
  - ? Prepare and publish findings and recommendations, if any, in respect of any such inquiries and investigation;
  - ? Where requested by the Minister, to deliver a written report on each investigation to the Minister, including any recommendations for changes or improvements that it considers will ensure avoidance of accidents and incidents in the future;
  - ? Co-ordinate and co-operate with other accident investigation organisations of Contracting States, including taking or collecting evidence on their behalf;
  - ? Request from the Authority or PNG Air Traffic Services (PNGATS) or any other person such information as it considers appropriate regarding any accident or incident that the Commission believes that it is required to investigate under this Act;
  - ? Perform any other function or duty conferred on the Commission under any Act or prescribed by regulations; and
  - ? With the consent of the Minister, to provide consulting services, training and management services relating to any of its functions, whether in PNG or overseas.

Papua New Guinea Accident Investigation Commission

## 42.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Commission had submitted the financial statements for the years ended 31 December 2011 and 2012 and arrangements were being made to commence the respective years audit without delay.

The Commission had not submitted the financial statements for the year ended 31 December 2013

for my inspection and audit.

## 43. PNG IMMIGRATION AND CITIZENSHIP SERVICE AUTHORITY

### 43.1 INTRODUCTION

#### 43.1.1 Legislation

The PNG Immigration and Citizenship Services Authority was established under the Immigration and Citizenship Service Act 2010. This Act came into operation on 9 July 2010.

Under this Act, all assets used for the Authority services (other than land held by the State) which immediately before the coming into operation of this Act, were held by the Department of Foreign Affairs and Trade and which, by agreement between the Department Head of that Department and the Authority are necessary to be transferred to the Authority for the purposes of the Authority are on that coming into operation, transferred to and become assets of the Authority.

#### 43.1.2 Objectives of the Authority

The objectives of the Authority are the following:

- \* The management, development and protection of the nation's interest in so far as the security of the nation is protected;
- \* Elimination of corruption and increase in accountability;
- \* Provision of a more flexible operational working environment;
- \* Increased operational and management efficiency in financial management, accountability and performance management;
- \* Provision of a mechanism for the achievement of best practice;
- \* Provision of financial and administrative autonomy;
- \* Increased levels of client service delivery;
- \* Encouragement of study and research in areas which will contribute to the protection and security of the nation;
- \* Increased acquisition and dissemination of skill, knowledge and information in immigration and citizenship through education and training;
- \* Pursuit of effective strategies including improved administrative and legal machinery for managing immigration, citizenship and passport matters; and
- \* Ensure the Authority retains its primacy and leadership role with regard to the provision of effective border control and security through the effective management of entry and stay of people in PNG.

#### 43.1.3 Functions of the Authority

The functions of the Authority are to:

- \* Perform the functions and exercise the powers conferred on an authorised person or an officer under the Migration Act (Chapter 16) or the Passports Act (Chapter 17);
- \* Assist the Ministers responsible for the administration of the Migration Act (Chapter 16) and Passport Act (Chapter 17) in the performance of their functions under those Acts respectively;

Papua New Guinea Immigration and Citizenship Service Authority

- \* Assist the Minister responsible for citizenship in the performance of his functions under Part IV of the Constitution and the Citizenship Act (Chapter 12);
- \* Collect fees, penalties and other revenue authorised under the Migration Act (Chapter 16), Passport Act (Chapter 17) and Citizenship Act (Chapter 12);
- \* Administer the APEC Business Travel Card Scheme under the Migration Act (Chapter 16);
- \* Collect, monitor, secure and maintain information and technological systems to enable fully integrated and supported immigration, citizenship and passport operations;
- \* Undertake development of legislation and policy to support the operations of the Authority and the effective administration of the Migration Act (Chapter 16), Passport Act (Chapter 17) and the Citizenship Act (Chapter 12);
- \* Advise the Minister on policy issues which relate to this Act and the effective administration of the Migration Act (Chapter 16), Passport Act (Chapter 17) and the Citizenship Act (Chapter 12);
- \* Exercise and carry out such functions and powers and perform all duties which under any other written law are or may be or become vested in the Authority or delegated to the Authority by this Act or any other law; and
- \* Carry out such other duties as are necessary, supplementary, incidental to or consequential to achieve the objectives or the discharge of its functions under this Act.

## 43.2 AUDIT OBSERVATIONS

### 43.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Authority for the year ended 31 December 2011 was issued on 11 April 2014. The report contained a Qualified Opinion.

#### “BASIS FOR QUALIFIED OPINION

Cash at Bank – K6,421,476

My examination revealed that the Authority did not prepare its monthly bank reconciliations on a timely basis. The reconciliations prepared were incomplete as they were not checked and verified by a Senior Finance Officer of the Authority. I also noted that due diligence was lacking in the preparation of bank reconciliations whereby cheque details such as dates and particulars were not clearly stated in the reconciliation. I noted further that cheques totaling K13,487.26 in the Operating Account reconciliation did not match the cheque sequence in the cashbook. The December unpresented cheques were not captured in the cheque listing for the Trust Account. Further, the independent bank confirmation was not received for the accounts maintained by the Authority. Based on the findings, I was unable to place reliance on controls surrounding the bank reconciliation process. Therefore, I was unable to comment on whether the bank balances have been fairly stated in the accounts.

Papua New Guinea Immigration and Citizenship Service Authority

#### Fixed Assets

My review of the Fixed Assets Register revealed that the Register was not properly maintained and updated on a timely basis showing addition and disposal of assets made during the year. I also noted that no summary of the fixed assets owned by the Authority as at

31 December 2011 was disclosed by way of notes to the accounts. In addition, assets purchased during the year totaling K2,258,909.80 were not reflected in the register provided for my examination. As such, I was unable to conclude on the accuracy, valuation, existence and ownership of the fixed assets owned by the Authority as at 31 December 2011.

## QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs above:

(a) The financial statements of the Authority are based on proper accounts and records; and  
(b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Authority as at 31 December 2011 and the results of its financial operations and cash flows for the year then ended.”

### 43.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2011 was issued on 11 April 2014. The report contained the following comments.

#### Non-Acquittal of Travel Advances

My review of the travel expenses totalling K2,068,911 by staff on duty travel (domestic and overseas) revealed again that the Authority did not maintain a travel advances register to monitor that the advances were properly recorded and acquitted on a timely manner. As a result, the Authority has not complied with the PFMA.

I drew Management’s attention to the PFMA and paragraph 12.10, Part 20 of the Financial Management Manual in my last audit report. The Authority is yet to implement my recommendations.

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

The Authority did not submit its financial statements for the year ended 31 December 2011 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the PFMA. Consequently, the Authority breached the requirements of Sections 63(2) and 63(4) of the PFMA.

## 43.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December 2012 and 2013 had not been submitted by the Authority for my inspection and audit despite numerous reminders.

## 44. PNG FOREST AUTHORITY

### 44.1 INTRODUCTION

#### 44.1.1 Legislation

The PNG Forest Authority was established under the Forestry Act 1991 which came into operation on 25 June 1992.

The prime objective of the Authority is to provide for and to give effect to the National goals and

the directive principles regarding:

- \* Management, development and protection of the Nation's forest resources and environment in such a way as to conserve and renew them as an asset for succeeding generations;
- \* Maximisation of PNG's participation in the wise use and development of the forest resources as a renewable asset;
- \* Utilisation of the Nation's forest resources to achieve economic growth, employment creation and increased "downstream" processing of the forest resources;
- \* Encouragement of scientific study and research into forest resources so as to contribute towards a sound ecological balance, consistent with the national development objectives;
- \* Increased acquisition and dissemination of skills, knowledge and information in forestry through education and training; and
- \* Pursuit of effective strategies, including improved administrative and legal machinery, for managing forest resources and the management of National, Provincial and Local interests.

The Authority was formed by the amalgamation of the Department of Forests, the Forest Industries Council, the Provincial Divisions of Forestry, the Forestry College in Bulolo, the Timber Industry Training College and the Research Institute in Lae.

With the establishment of the Authority the following Acts were repealed: the Forest Industries Council Act (Chapter 215); the Forestry Act (Chapter 216); and the Forestry (Private Dealings) Act (Chapter 217).

#### 44.1.2 Functions of the Authority

The principal functions of the Authority are to:

- \* Provide advice to the Minister on forest policies and legislation pertaining to forestry matters;
- \* Prepare and review the National Forest Plan and recommend it to the NEC for approval;
- \* Through the Managing Director, to direct and supervise the National Forest Service;
- \* Negotiate Forest Management Agreements;
- \* Select operators and negotiate conditions on which timber permits, timber authorities and licences may be granted in accordance with the provisions of the Forestry Act;

#### Papua New Guinea Forest Authority

- \* Appoint and supervise the State Marketing Agency;
- \* Subject to the Customs Act Customs Tariff Act and Exports (Control and Valuation) Act to control and regulate the export of forest produce;
- \* Oversee the administration and enforcement of the Forestry Act and any other legislation pertaining to forestry matters, and of such forestry policy as is approved by the NEC;
- \* Undertake the evaluation and registration of persons desiring to participate in any aspect of the forestry industry;
- \* Act as agent for the State, as required, in relation to any international agreement relating to forestry matters; and
- \* Carry out such other functions necessary to achieve its objectives or given to it under the Act or other relevant law.

#### 44.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the Authority's financial statements for the year ended 31 December 2009 was completed and the

results were being evaluated.

The fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2010 was in progress.

The Authority had not submitted its financial statements for the years ended 31 December 2011, 2012 and 2013 for my inspection and audit.

## 45. PNG INSTITUTE OF MEDICAL RESEARCH

### 45.1 INTRODUCTION

#### 45.1.1 Legislation

The PNG Institute of Medical Research was established by the Institute of Medical Research Act (Chapter 166) on 1 January 1980.

#### 45.1.2 Functions of the Institute

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

### 45.2 AUDIT OBSERVATIONS

#### 45.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the Institute's financial statements for the year ended 31 December 2011 was issued on 27 February 2014. The report contained a Qualified Opinion.

#### "BASIS FOR QUALIFIED OPINION

##### Bank Accounts – K18,478,878

In 2011, the Institute maintained thirty-seven bank accounts and two fixed term deposit accounts. My examination revealed that several bank accounts were not properly reconciled and prepared on time. Thus mistakes and errors were never rectified, which resulted in the Institute having several of the bank accounts with huge amounts of unrepresented cheques and deposit in transits unrealised for more than six months. Based on the findings, I was unable to place reliance on controls surrounding the bank reconciliation process. Therefore, I was unable to comment on whether the bank balances have been fairly stated in the accounts.

##### Fixed Assets – K26,769,983

My review of the Fixed Assets Register revealed that the register was not properly maintained and updated on a timely basis showing additions and disposals of assets made during the year. Further, there was no stock-take done for the last seven years to confirm the existence and to determine a fair value of each asset held at year end. As such, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K26,769,983 disclosed in the



financial statements.

## QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs above:

Papua New Guinea Institute of Medical Research

(a) The financial statements of the Institute are based on proper accounts and records; and  
(b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Institute as at 31 December 2011 and the results of its financial operations and cash flows for the year then ended.”

### 45.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act, on the inspection and audit of the accounts and records of the Institute for the year ended 31 December 2011 was issued on 27 February 2014. The report contained the following comments.

#### Non-Acquittal of Travel Advances

My review of the travel expenses totaling K2,996,160 by staff on duty travel (domestic and overseas) revealed that the Institute did not maintain a travel advances register to ensure that the advances were properly recorded and timely acquitted. As a result, a total advance of K702,607 remained outstanding or not acquitted at the year end.

I drew Management’s attention to the Public Finances (Management) Act and paragraph 12.10 Part 20 of the Financial Management Manual which states that all travel advances must be acquitted within a specified time limit of seven days for domestic travel and fourteen days for overseas travel. Management responded that appropriate action will be taken.

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

The Institute had not submitted its financial statements for the year ended 31 December 2011 on a timely basis to enable me to conduct the audit and submit the audit report within the time frame prescribed by the PFMA. Consequently, the Institute breached Section 63(2) and 63(4) of the PFMA.

## 45.3 STATUS OF FINANCIAL STATEMENTS

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

## 46. PNG INSTITUTE OF PUBLIC ADMINISTRATION

### 46.1 INTRODUCTION

#### 46.1.1 Legislation

The PNG Institute of Public Administration was established in 1993 under the PNG Institute of

Public Administration Act 1993.

#### 46.1.2 Functions of the Institute

The functions of the Institute are to plan, organise, conduct and assess a wide range of practices and relevant training programmes and, if applicable, in the South Pacific Region and to undertake relevant research and consultancies on issues and problems of management and administration and to act as a centre for collection, storage, retrieval and dissemination of information.

#### 46.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Institute for the year ended 31 December 2011 was completed and the results were being evaluated.

The financial statements for the years ended 31 December 2012 and 2013 had not been submitted by the Institute for my inspection and audit.

### 47. PNG MARITIME COLLEGE

#### 47.1 INTRODUCTION

##### 47.1.1 Legislation

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

##### 47.1.2 Functions of the College

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

#### 47.2 AUDIT OBSERVATIONS

##### 47.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the College for the years ended 31 December 2009 and 2010 were issued on 31 October 2013 and 31 March 2014 respectively. The reports contained similar qualifications, hence only the 2010 report is reproduced.

##### “BASIS FOR QUALIFIED OPINION

Cash at Bank – K745,028

The financial statements disclosed cash at bank as K745,028 at 31 December 2010. I observed that bank reconciliation statements were not prepared on a timely basis at end of each month

which is an important control to detect errors. I noted a difference of K738,195 between the bank reconciliation statement balance of (K6,833) and the financial statement balance of K745,028. As a result, I was unable to establish the correctness and completeness of Cash at Bank as reported in the financial statements at the year end.

#### Inventory (Fuel)

The financial statements disclosed fuel inventory as nil balance at 31 December 2010. In my review of fuel stock, I noted that there were purchases of fuel supplies made by the College during the year under review. However, I noted that there was no proper fuel inventory records maintained, showing clearly the movements as reported in prior years. Further, I have not physically verified the stock at the year end. As a result, I was unable to certify whether the value of inventory reported in the financial statements was fairly stated at the year end.

#### Student Tuition Fee Deposits – K495,890

I noted that a total of K495,890 was disclosed in the financial statements as students tuition fees. However, I was not provided with appropriate listing and reconciliation of the student tuition fee deposits as reported in the financial statements. Further, the beginning balance of K518,283 which represents advance payment from sponsors and students for school year 2010 were not fully reversed to the revenue account. As a result, I was unable to ascertain the correctness and accuracy of the Student tuition fee deposits and the corresponding Tuition fees (Income) as reported in the financial statements.

#### Provisions for Long Service Leave and Annual Leave

The College did not maintain the accounts and records including general ledgers for provisions for long service leave and annual leave for the year ended 31 December 2010. The accounts and records of these provisions were not provided for me to perform the necessary audit examinations. As a result, I was unable to ascertain whether the long service and annual leave provisions were fairly stated in the financial statements.

#### Limitation of Scope in Levy Collection – K99,741

Note 2 to the financial statements disclosed revenue from levies that were collected from shipping companies under the PNG Maritime College Act and the Merchant Shipping Act as K99,741 at the year end. The College did not maintain a complete register of all the shipping companies operating in the territorial waters of PNG and did not collect levies from all the registered shipping companies.

In the absence of a complete and comprehensive register of the shipping companies and the levies collected, I was unable to satisfy myself as to the occurrence, accuracy and completeness of the levies collection as stated in the financial statements for the year ended 31 December 2010.

#### Prior Year Adjustment – K572,449

The College disclosed a prior year adjustment amount of K572,449 in its Statement of Changes in Equity at year end. I was not provided with sufficient information and explanation to satisfy myself of the adjustment made. As a result, I was unable to comment on the accuracy of the amount disclosed in the Statement of Changes in Equity.

## GST Receivable – K206,316

Included under Other Debtors Account was a GST receivable amount of K206,316. The College did not lodge its GST returns to the IRC on a regular basis. Further, the GST receivable account had been increasing each year, however the GST refundable amounts may not be claimed or refunded because the College does not have an Exemption Certificate from the IRC to claim refunds.

## QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualified Opinion paragraphs above:

- (a) The financial statements are based on proper accounts and records; and
- (b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the College for the year ended 31 December 2010 and the results of its financial operations and cash flows for the year then ended.”

## 47.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act, on the inspection and audit of the accounts and records for the years ended 31 December 2009 and 2010 were issued on 31 October 2013 and 31 March 2014 respectively. The reports contained similar observations, hence, only the 2010 report is reproduced as follows:

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

The College did not prepare and submit its financial statements to my Office on a timely basis to enable me to complete the audit on time for tabling the report in Parliament before 30 June 2010. Consequently, the College has breached Section 63(2) and 63(4) of the PFMA.

### Proper Accounting and Administration Procedural Manual

I noted that the College did not have a proper Accounting and Administration Manual for the staff to adopt and use as a reference material. The current Manual in use was compiled and kept in a loose form file. I further noted that the staff members of the Accounts and Administration Section did not fully understand their duties and responsibilities to perform their daily tasks effectively. I recommended the College to employ a competent person to prepare a comprehensive Accounting and Administration Procedural Manual to be adopted by the College.

### Annual Budget

The College did not provide me with the Approved Budget for the year 2010 for my review. As a result, I was unable to compare and verify whether the College was operating within the required budget level for the period under review.

### Group Tax – K549,238

Salary Withholding Tax (Group Tax) of the College was not remitted to the IRC on time as required by Income Tax Act 1959 and it carries a balance of K549,238 at the year end. It is stipulated under

Section 299(G) of the Income Tax Act 1959 that group employer is required to remit salary and wages tax to the IRC within 7 days after month ended.

Failure to remit salary and wages tax on time would attract a penalty of 20% for outstanding tax payable and an additional interest of 20% per annum on the amount that remains unpaid.

## Properties

During the review of the College properties, I noted that the ownership of ten properties could not be established. Further, I was unable to verify whether the six properties were transferred to the College in accordance with the Court Order:

1. Section 1, Allotment 3, Madang Province;
2. Section 4, Allotment 1, Madang Province;
3. Section 4, Allotment 21, Madang Province;
4. Section 7, Allotment 12, Madang Province;
5. Section 15, Allotment 6A, B and C, Madang Province; and
6. Section 31, Allotment 3, Madang Province.

Further, Certificate of Title Deeds for four additional College properties off-campus were not provided to me for my inspection and verification and the details of these properties are shown as below:

1. Section 37, Allotment 6 – College Property, Madang;
2. Section 37, Allotment 7 – College Property, Madang;
3. Section 38, Allotment 17A and 17B – College Property, Madang; and
4. Section 59, Allotment 24 – College Property, Madang.

As a result, I was unable to satisfactorily comment on the accuracy and ownership of the properties under the custodianship of the College at the year end.

## Fixed Assets Register

My review revealed that there was no physical stock-take carried out over the years on all assets of the College. I noted that the Fixed Assets Register contained many old assets that may no longer exist.

In addition, the total amount of assets in each class did not agree to the general ledger. I recommended Management arrange for a complete stock-take of all its fixed assets and update the Assets Register to reflect accurate information. The non-serviceable assets and/or assets that may not exist be brought to the attention of the College Board for approval for write-off. Further, proper reconciliation of fixed assets in each class between the Asset Register and general ledger be performed with assets specific identification number tagged for easy reference. The management concurred with my observation and advised that it will take necessary steps to update the Fixed Asset Register.

## Employees Personnel Files and History Cards

I noted that employee personal files and salary history cards were not properly maintained by the College. The salary history cards/records serve as an important control mechanism to record and keep track of changes in respect of individual staff emoluments. Lack of such records would cause difficulty in the verification process.

I recommended the College put in place a proper control system over salary history cards, staff personal files, a reconciliation system for the employee service account and the detail records maintained for the personal files. Management concurred with my observation and advised me that this was currently being addressed.

### Security Contracts

I noted that the College engaged several security firms for the provision of security services and these firms were the same companies that were engaged in 2009. However, no formal contracts have been signed between the parties. Due to the absence of the signed contracts, I was unable to verify and confirm the validity and appropriateness of the terms and conditions between these companies and the College. I have recommended the College to comply with the requirement of entering into proper legal binding contracts before utilising the services of security companies. Management agreed to my recommendation and advised that it was in the process of formalizing a contract with a professional security firm.

### Segregation of Duties in Payroll and Executive Function

I noted during my review of payroll that the payroll preparation has been solely undertaken by the then Principal of the College. This function was supposed to be handled by another Senior Officer other than the Principal. However, I noted that there was no segregation of duties in relation to the preparation of the payroll records, authorisation and approval of the payroll processing of the College. I recommended College Management segregate payroll function from the execution in order to avoid unnecessary compromise to the payroll processes. Management informed me that appropriate action would be taken to rectify the situation.

### Capacity to Prepare the College Financial Statements

The College does not have skilled and competent employees to prepare the College's financial reports. I noted that the College Management financial reports were prepared by an outside accountant with less involvement from the College accounting staff. Further, I noted that some of the accounts in the general ledger were not properly reconciled.

I recommended the College Management recruit a competent Accountant to strengthen its Accounts Section to train and take-charge of the accounts staff, reconcile the accounts and prepare the necessary management reports on a timely basis.

## 47.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the College for the years ended 31 December 2011 and 2012 had been completed and Management responses were awaited to finalise the audit reports.

The College did not submit the financial statements for the year ended 31 December 2013 for my inspection and audit.

## 48. PNG NATIONAL INSTITUTE OF STANDARDS AND INDUSTRIAL TECHNOLOGY

### 48.1 INTRODUCTION

### 48.1.1 Legislation and Objectives of the Institute

The PNG National Institute of Standards and Industrial Technology was established by the National Institute of Standards and Industrial Technology Act 1993 and this came into operation on 3 January 1994. The objectives of the Institute are: to carry out scientific and technological research and to develop a National Standards system; to co-operate with international organisations of measurement and technical standards; to promote and undertake industrial integrated standardisation and quality assurance; and to enter into any agreement both within and outside PNG to further the objectives and functions of the Institute.

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

### 48.1.2 Functions of the Institute

The main functions of the Institute are to:

- \* Safeguard PNG against the dumping and supply of unsafe, unhealthy and inferior or substandard products;
- \* Establish and co-ordinate the National Standardisation system;
- \* Provide education, training and industrial extension and consultative services to assist industries;
- \* Promote public and industrial welfare, health and safety;
- \* Recognise as testing authorities, bodies and institutions;
- \* Establish a National Certification System of conformity;
- \* Assist industries overcome technical barriers on its products and services to international trade; and
- \* Assist industries to produce quality products and services.

## 48.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements for the year ended 31 December 2010 had completed and the results were being evaluated.

The financial statements for the years ended 31 December 2011, 2012 and 2013 had not been submitted by the Institute for my inspection and audit, regardless of numerous reminders.

## 49. PNG SPORTS FOUNDATION

### 49.1 INTRODUCTION

#### 49.1.1 Legislation

The PNG Sports Foundation was established by the PNG Sports Foundation Act 2005. This Act was certified on 08 August 2006 and became operational on the same date and replaced the PNG Sports Commission Act 1992.

Under this Act, all assets held or occupied by and all liabilities and obligations of the PNG Sports Commission prior to the operation of this Act were transferred to and became assets and liabilities

and obligations of the Foundation at commencement.

#### 49.1.2 Objectives of the Foundation

The principal objectives of the Foundation are: to encourage the private sector to contribute to the funding of sports to supplement assistance by the government of PNG; to provide leadership in the development of PNG's performance in sports; and to encourage increased participation and 'Sport for All' by Papua New Guineans in sports.

#### 49.1.3 Functions of the Foundation

The principal functions of the Foundation are to:

- \* Advise the Minister in relation to the development of sports;
  - \* Co-ordinate activities in PNG for the development of sports and to develop and implement programs to promote equality of access to and participation in sports by all PNG and;
  - \* Develop and implement programs for the recognition and development of persons who excel it, or who have the potential to achieve standards of excellence as sports coaches, umpires, referees or officials essential to the conduct of sports;
  - \* Undertake research development related to sports science and sports medicine and to provide sports medicine services and sports science services to persons participating in programs of the Foundation;
  - \* Establish, manage, develop and maintain facilities for the purposes of the Foundation;
  - \* Collect and distribute information and provide advice on matters related to the activities of the Foundation;
  - \* Fostering co-operation in sports between PNG and other countries and to provide access to persons from other countries to the resources, services and facilities of the Foundation;
  - \* Raise money through the National Sports Trust or by other means for the purposes of the Foundation and to administer and expand money appropriated by the Parliament or raised in accordance with and for the purpose of the Foundation;
  - \* Consult and co-operate with appropriate authorities of the National Government or the Provinces and Local-level Governments and with other persons, associations and organisations on matters related to the activities of the Foundation;
- 
- \* Provide advice on matters related to sports to the PNG National Olympic Committee or other persons, bodies or associations; and
  - \* Co-operate with districts, provincial, national and international sporting organisations in aiming to foster a sporting environment that is free from the unsanctioned use of performance enhancing drugs and doping methods.

### 49.2 AUDIT OBSERVATIONS

#### 49.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Foundation for the years ended 31 December 2003 and 2004 were issued on 31 October 2013. The reports contained Disclaimer of Opinion, hence only the 2004 report is reproduced as follows.

#### "BASIS FOR DISCLAIMER OF OPINION

Cash at Bank – K209,790



The Foundation disclosed its Bank balance as K209,790 at 31 December 2004. The composition of the bank balance are Main Operating Account as K137,765, Main Trust Account disclosed as (K11,335), Sports Centre General Account (K12,849), Fund Raising Account K250, Bank Project Account K87,000 and Sports Centre Trust Account as K8,959. During my examination, I noted a difference of K7,916 between the Main Trust Bank Account reconciliation balance of K3,419 and the financial statement balance of K11,335.

I was not provided with the bank reconciliation statements for Project and Fund Raising Accounts, Lae Sports Centre General and Trust Accounts and Main Operating Account. In addition, bank confirmation for Fund Raising and Sports Centre General and Trust Accounts were not produced for my review. As a result, I was unable to ascertain the accuracy of the bank balance of K209,790 disclosed at the year end.

#### Debtors and Prepayments – K209,106

The financial statements disclosed Debtors and Prepayments as K209,106 which consists of Trade Debtors K205,943 and Prepayments K3,163. During my review, I noted that the Foundation reported the same trade debtors and prepayment balance in its accounts as last year and has not updated to reflect the correct balance at the year end. In addition, I was not provided with the trade debtors listing, updated schedules of prepayments and other supporting documentation to ascertain the accuracy and completeness of the debtors balance at the year end. My examination also revealed a difference of K204,531 between the general ledger balance of K1,412 and the financial statement balance of K205,943. As a result, I was unable to conclude on the accuracy and completeness of the debtors balance at the year end.

#### Fixed Assets –K285,434

As explained in Note 2 to the financial statements, the assets and liabilities of the then South Pacific Games (1991) Foundation was transferred to the PNG Sports Foundation as per the NEC Decision No. 100/95. Included in the assets transferred to the Foundation were Land, Buildings and Stadiums, the valuation of which were not included in the Balance Sheet.

The Foundation was not able to provide the title deeds establishing legal ownership of these properties and their formal valuations were not produced for my verification. As a result, I was unable to satisfy myself as to the ownership and valuation of these properties being omitted from the Balance Sheet, and the impact of depreciation on the profit and loss account for the year.

The Foundation did not produce the fixed assets register to enable me to perform tests to determine the correctness of fixed assets valuing K285,434 at the year end. As a result, I was unable to determine the valuations, existence and completeness of this balance. Further, I was unable to ascertain the correctness and the accuracy of depreciation expense account of K67,792 at the year end.

#### Trade Creditors – K153,606

The financial statements disclosed trade creditors as K153,606 at the year end. During my review, I noted that the Foundation reported the same trade creditors balance in its accounts as last year and has not updated the creditors to reflect the correct balance at the year end. In addition, I was not provided with the trade creditor's listing and other supporting documentation to ascertain the accuracy and completeness of the trade creditors balance at the year end. My examination also

revealed a difference of K29,383 between the general ledger balance of K124,223 and the financial statement balance of K153,606. As a result, I was unable to ascertain the accuracy and completeness of the trade creditors of K153,606 at the year end.

Other Income – K820,821

The financial statements disclosed income other than Government funding as K820,821. This amount consists of hire of facilities of K56,382, rental income of K575,806, bar sales of K2,927 and other income of K185,706. I was not provided with the schedules and supporting documentation (receipts, deposit book and bank statements) in respect of the above income for my verification. My examination also revealed that other income general ledger balances did not agree to the financial statements. As a result, I was unable to ascertain the accuracy and completeness of other income of K820,821 disclosed in the financial statements.

Expenditure – K1,491,775

During my examination, I noted that the general ledgers for the expenditure accounts did not agree to the financial statements. As a result, I was unable to ascertain the accuracy and completeness of the total expenditure of K1,491,775 as disclosed in the financial statements.

#### 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 audit evidence and accordingly, I was unable to express an opinion on the financial statements of the PNG Sports Foundation for the year ended 31 December 2004.”

#### 49.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the audit and inspection of the accounts and records of the Foundation for the years ended 31 December 2003 and 2004 were issued on 31 October 2013. The reports contained similar observations and as such, only the comments in the 2004 report are reproduced as follows:

##### Non-Submission of Financial Statements

The Foundation has not prepared and submitted its financial statements to my Office before 31 March, 2005 to enable me to conduct the audit within the timeframe stipulated by law. Consequently, the Foundation breached Sections 63 (2) and 63 (4) of the PFMA.

##### Employees Personnel Files and History Cards

I noted that employee personnel files with regard to history cards, tax declarations, leave applications and other correspondences were not updated and properly maintained by the Foundation. I also noted that the employment contract for some contract officers were not in the files for my verification. I further noted that the salary and wages tax calculation for some of the Foundation’s employees were not correctly calculated.

##### Travel Advance/ Acquittal Register

During my examination, I noted that the Foundation did not maintain a Travel Acquittal Register

during the year under review. As a result, I was unable to trace the authenticity of travel expenses against its acquittals.

## Supporting Documents and Records

Supporting documents were misplaced and were not provided to audit to support receipts of monies. I was also not provided with several payment vouchers totaling K33,490 for audit examinations during the audit. Further, I noted that there was no proper control and safeguarding of the accounting records and documents. I was therefore unable to verify these payments in the absence of supporting documents and records.

## Other Internal Control Weaknesses

Other weaknesses noted were:

\* Foundation's Board Minutes for the first Meeting was not signed by the Chairman in order to confirm that the Minutes were true and correct. In addition, I was unable to confirm whether any Meetings were convened subsequent to the first meeting held during the year; and

\* I noted that the Foundation's expenditure exceeded the budgeted amounts without the proper approvals from the Board.

## 49.3.STATUS OF FINANCIAL STATEMENTS

The Foundation had not submitted its financial statements for the years ended 31 December 2005 to 2013 for my inspection and audit despite numerous reminders from my Office and my Senior Officers meetings with Management. The new Management advised me that they have engaged a Private Accounting Firm to prepare the outstanding financial statements for audit.

I have expressed my concern over the long delay experienced in obtaining the financial statements to bring the audit to the current status. In view of that, I have conducted an Internal Control Review on the Foundation during 2013 financial year and the results of my finding were reported to Management on 22 April 2014. At the time of preparing this Report, the Foundation has not responded to my findings to enable me to include the findings and Management comments as part of this Report.

## 50. PNG UNIVERSITY OF TECHNOLOGY

### 50.1 INTRODUCTION

#### 50.1.1 Legislation and Objectives of the University

The PNG University of Technology was established under the University of Technology Act (Chapter 170).

The University's aims are to provide tertiary educational facilities and to produce qualified men and women to play an important part in the development of PNG.

#### 50.1.2 Functions of the University

The University's principal functions are to encourage and provide facilities for study, education and training of technological subjects and branches of learning at tertiary level, and to assist in

research and the practical application of technological branches of learning.

### 50.1.3 Subsidiary of the University

The University has a wholly owned subsidiary Company, Unitech Development and Consultancy Company Limited, which was incorporated under the Companies Act.

Comments in relation to the subsidiary are contained in paragraph 50A of this Report.

## 50.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the years ended 31 December 2010 and 2011 had been submitted and arrangements were being made to commence the respective year's audits without delay.

The financial statements for the years ended 31 December 2012 and 2013 had not been submitted for my inspection and audit.

### 50A. UNITECH DEVELOPMENT AND CONSULTANCY COMPANY LIMITED (Subsidiary of University of Technology)

#### 50A.1 INTRODUCTION

Unitech Development and Consultancy Company Limited is a Company incorporated under the Companies Act.

##### 50A.1.1 Functions of the Company

The primary function of the Company is to carry on the business and activities of consultants, and to render management, industrial, commercial, financial, secretarial, public relations, industrial relations and other related services to any person, firm or corporation engaged in any business, trade or activity. The Company also carries on a business of insect farming.

#### 50A.2 AUDIT OBSERVATIONS

##### 50A.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the Companies Act on the Company's financial statements for the years ended 31 December 2011 and 2012 were issued on 25 October 2013. These reports contained similar qualifications, hence only the 2012 report is reproduced.

#### "BASIS FOR QUALIFIED OPINION

Unitech Consultants Accounts Payable – K310,483

My review of 2012 Unitech Consultants' accounts payable revealed that Unitech Development and Consultancy Limited (UDC Ltd) did not maintain proper trust account ledgers for Unitech Lecturers engaged by UDC Ltd to run short courses or to provide Consultancy Services to clients. Consequently, I was unable to confirm the above balance as disclosed in the financial statements.

Goods and Services Tax (GST) Payable – K97,761

My examination of GST accounts revealed that there were two GST file numbers per the correspondence from the IRC. They are VAT number 7792 and GST number 1684. VAT number 7792 statement of account showed records of GST remittance from 2002–2007 with payable amount of K30,750, while GST number 1684 showed records of GST remittance from 2007–2009 with payable amount of K28,021. As a result, I was unable to gain assurance over accuracy, measurement and completeness of GST payable balances as disclosed in the financial statements.

#### Unitech Development and Consultancy Company Limited

##### Company Income Tax Remittance – K106,031

During my review of the Company's Income Tax Account, I noted that annual company tax returns for prior years including 2012 were not lodged with the IRC. As a Company, UDC Ltd is subject to the requirements of the Income Tax Act 1959 to lodge Company tax returns with IRC on or before 30 June in the following year. In the absence of an up-to-date lodgement of Company tax returns and their subsequent assessment, I was unable to determine the accuracy and completeness of company income tax payable balance of K106,031 disclosed in the financial statements.

#### Tenth City Land Development

During my review of Tenth City Land Development Account, I noted that Unitech has title over the land Portion 350, an undeveloped land located at Tenth City, next to the University campus. The University through verbal arrangement with the business arm (UDC Ltd) of the University has agreed for UDC Ltd to sell off this portion. In an undated Heads of Agreement between UDC Ltd and PNG Customs Services (PNGCS) it was agreed in principal that UDC Ltd will manage and construct 28 houses on land Portion 350. These 28 houses once completed, would be purchased by PNGCS for K7,540,400. I noted that PNGCS has already paid K1,633,299 to UDC Ltd as down payment to construct the houses and the balance of K5,707,106 was outstanding as at 31 December 2012. Further, UDC Ltd from the down payment of K1,633,299 recognised K532,894 as income and paid legal fees of K657,413 to a Legal Consultant.

However, I did not sight any signed agreement between the University and UDC Ltd or the University Council Meeting Minutes formally authorising UDC Ltd to manage, develop and sell off the University land Portion 350 located at Tenth City on behalf of the University. As such, the treatment of K532,894 by UDC Ltd as income did not meet the recognition criteria of income. As a result, the income has been overstated by K532,894.

#### QUALIFIED OPINION

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

(a) The financial statements of Unitech Development & Consultancy Company Limited for the year ended 31 December 2012:

(i) Give a true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and

(ii) The financial statements have been presented in accordance with the Companies Act, International Financial Reporting Standards and other generally accepted accounting practice in PNG.

(b) Proper accounting records have been kept by the Company; and

(c) I have obtained all the information and explanations required.”

Unitech Development and Consultancy Company Limited

### 50A.3 STATUS OF FINANCIAL STATEMENTS

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

## 51. PARLIAMENTARY MEMBERS' RETIREMENT BENEFITS FUND

### 51.1 INTRODUCTION

#### 51.1.1 Legislation

The Parliamentary Members' Retirement Benefits Fund was established under the Parliamentary Members' Retirement Benefits Fund Act 1997 which came into operation on 16 July 1997.

#### 51.1.2 Objectives of the Fund

The objective of the Fund was to provide pensions and retirement benefits for Members and former Members of Parliament and the former House of Assembly and to provide benefits to dependant spouses and juvenile dependants. This Act repealed the Parliamentary Members' Retirement Benefits Act which came into operation in 1982.

### 51.2 AUDIT OBSERVATIONS

#### 51.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the Fund's financial statements for the year ended 31 December 2012 was issued on 8 May 2014. The report did not contain any qualification.

#### 51.2.2 Audit Observations Reported to the Ministers

My examination in accordance with Section 8 (2) of the Audit Act I have a duty to report on significant matters arising out of the financial statements to which this report relates. However, no significant matters were noted during the course of my audit.

### 51.3 STATUS OF FINANCIAL STATEMENTS

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

## 52. PUBLIC CURATOR OF PNG

### 52.1 INTRODUCTION

#### 52.1.1 Legislation

The Office of the Public Curator of PNG was established under the Public Curator Act (Chapter 81).

### 52.1.2 Functions of the Public Curator

The main functions of the Public Curator are to act as an administrator of estates; an executor appointed under a will by a member of the public; and/or an official trustee.

## 52.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Public Curator for the year ended 31 December 2011 had been completed and the reply to the Management Letter was received on 21 May 2014 and the results were being evaluated.

The Public Curator had not submitted its financial statements for the years ended 31 December 2012 and 2013 for my inspection and audit, despite reminders.

## 53. SECURITY INDUSTRIES AUTHORITY

### 53.1 INTRODUCTION

#### 53.1.1 Legislation

The Security Industries Authority was established under the Security (Protection) Industry Act 2004. This Act came into operation on 1 March 2005. The Authority commenced its operations in April 2005.

#### 53.1.2 Functions of the Authority

The principal functions of the Authority are to:

- \* Grant licenses and permits under the Act;
- \* Fix minimum standards of training applicable to holders of licenses and permits respectively;
- \* Establish, provide or approve training institutions and facilities or permit such training institutions or facilities as it may approve, to conduct training or to be used for training for the purpose of training of persons who intend to perform security officers duties or security guard duties;
- \* Approve any equipment other than firearms used by a holder of a license or permit or required by a customer to be installed on his premises or property;
- \* Ensure that the holder of a license or permit operates or carries out his duties or performs his functions in accordance with the terms and conditions of the license or permit and subject to the provisions of this Act;
- \* Formulate a Code of Conduct governing the disciplinary matters and work ethics within the Industry; and
- \* Undertake such other functions and exercise such powers as may be conferred on it by this Act or any other law.

### 53.2 AUDIT OBSERVATIONS

#### 53.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the Authority's financial

statements for the year ended 31 December 2010 was issued on 28 March 2014. The report contained a Qualified Opinion:

#### “BASIS FOR QUALIFIED OPINION

Cash at Bank – K722,058

My examination revealed that the bank reconciliations were not properly prepared, checked and verified on a timely basis by the Authority. The reconciliations provided to me for verification were prepared in 2013, two years later.

Security Industries Authority

I also noted that deposit in transit totaling K2,926 remained outstanding for over a year. Based on the findings, I was unable to place reliance on controls surrounding the bank reconciliation process. Therefore, I was unable to comment on whether the bank balances have been fairly stated in the accounts.

Fixed Assets – K207,680

My review of the Fixed Assets Register revealed that the register was not properly maintained and updated on a timely basis in 2010. No proper stock-take was done to confirm the existence and to determine the fair value of each asset held at year end. I also noted that assets were not numbered/tagged and no acquisition dates were provided for me to verify the depreciation calculated on assets listed in the register. Based on the findings, I was unable to place reliance on controls surrounding the management of fixed assets. As such, I was unable to conclude on the accuracy, valuation and existence of the fixed assets balance of K207,680 disclosed in the financial statements.

Other Income – K1,568,600

Other Income totaling K1,568,600 was disclosed for the year ended 31 December 2010. During my review I noted that records and supporting documents were not properly maintained by the Authority. This amount was directly taken from the bank statements and disclosed as Other Income in the financial statements. I was unable to obtain receipts amounting to K1,568,600 due to absence of invoices and receipts including bank deposit summaries. As a result, I was unable to conclude whether all monies received as other income were properly accounted for and reflected in the financial statements.

Staff Leave Provision – K89,928

My examination of the staff leave provision revealed that staff personnel files were not properly maintained. Due to the absence of personnel files audit could not verify the accuracy and measurement of the provisions disclosed as at 31 December 2010. Details such as commencement dates and employment history form the basis of calculating provisions which I was unable to sight. Consequently, I was unable to conclude whether the provision for the year has been fairly stated in the financial statements.

QUALIFIED OPINION



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

(a) The financial statements are based on proper accounts and records; and

(b) The financial statements are in agreement with those accounts and records and show fairly the state of affairs of the Authority as at 31 December 2010 and the results of its financial operations for the year then ended.”

Security Industries Authority

### 53.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Authority for the year ended 31 December 2010 was issued on 28 March 2014. The report contained the following comments.

#### Non Acquittals of Travel Advances

My review of the travel expenses totalling K254,604 by staff on duty travel (domestic and overseas) revealed that the Institute did not maintain a Travel Advances Register to ensure that the advances were properly recorded on a timely manner. As a result, a total advance of K79,541.92 remained outstanding or not acquitted at year end.

I drew Management’s attention to the PFMA and paragraph 12.10 Part 20 of the Financial Management Manual which prescribes the time limits for acquittal of travel advances. Management took note of the concerns and responded that appropriate action would be taken.

#### Maintenance of Staff Personnel Records

My review of the Authority’s personnel files revealed that staff personnel files were not satisfactorily maintained. Information such as commencement dates, qualification, dependent declaration and other personnel information could not be sighted for my verification. I brought this to Management attention and they took note of the concerns and responded that appropriate action would be taken.

#### Expenditure Control Weaknesses

During my inspection and review of the expenditure for the year ended 31 December 2010, I noted that controls in place were very weak. As a result, payments totalling K45,415.70 and their supporting documents were missing and could not be substantiated while payments totalling K222,192 did not have cheque copies attached for me to confirm amounts recorded in the cashbook.

### 53.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Authority for the years ended 31 December 2011, 2012 and 2013 had not been submitted for my inspection and audit, despite reminders.

## 54. SMALL BUSINESS DEVELOPMENT CORPORATION

## 54.1 INTRODUCTION

### 54.1.1 Legislation

The Small Business Development Corporation was established under the Small Business Development Corporation Act 1990 which came into operation on 19 June 1990.

### 54.1.2 Functions of the Corporation

The functions of the Corporation are: to formulate and recommend to the Minister the policies on the promotion of small business, incentive schemes and financial support; to provide advisory, management and administrative services; to arrange and co-ordinate training and skills development programs; to provide advice on financial assistance; to promote and co-ordinate business practice and provide venture capital; and to carry out research and disseminate information to small businesses for their development and expansion needs.

## 54.2 AUDIT OBSERVATIONS

### 54.2.1 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the Corporation's financial statements for the year ended 31 December 2011 was issued on 28 April 2014. The report contained a Qualified Opinion.

#### "BASIS FOR QUALIFIED OPINION

##### Government Equity

The financial statements disclosed the Government Equity as K3,749,880 at 31 December 2011. However, I was unable to verify the accuracy, correctness and validity of the Government Equity as disclosed in the financial statements due to absence of adequate documentation and relevant information.

#### QUALIFIED OPINION

In my opinion, except for the effects on the financial statements of the matter referred to in the Basis for Qualified Opinion paragraph;

- (a) The financial statements of the Corporation are based on proper accounts and records; and
- (b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Corporation as at 31 December 2011, and the results of its financial operations and cash flows for the year then ended."

Small Business Development Corporation

### 54.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Corporation for the year ended 31 December 2011 was issued on 28 April 2014. The report contained the following observations.

## Staff Advance

The Corporation allows Staff Advances for school fees, rentals and other personal expenses. At the year ended 31 December 2011 advances totalling K150,357 was not fully recouped. The advances should be properly managed and recouped within the financial year. I recommended the Corporation to ensure that Staff Advances are closely monitored and recouped within a reasonable period.

## Travel Advance

I noted that the Corporation did not comply with the Policy for Travel Advances and advances totalling K799,784 had not been acquitted as at 31 December 2011. It is a requirement under the PFMA and Financial Management Manual that all travel advances must be acquitted within a timeframe as stipulated in the Finance Manual (i.e. 7 days for domestic travel and 14 days for overseas travel). I advised the Corporation to adhere to the requirements of the PFMA and the Financial Management Manual.

## Project Expenses

Project Expenses relates to expenditure under the 'SME Seed Capital Grant' funded by the Government for the purpose of providing credit guarantee to Small Businesses owned and operated by citizens of PNG. My examination on project expenditure revealed the following discrepancies in two instances:

- \* An open cheque payment of K10,000 bearing Cheque Number 105267 was paid to Bataka Village as a seed capital. However, I was unable to verify this payment as there were no relevant supporting documents such as Business Proposal, Business Cash Flow and other relevant documents; and

- \* An open cheque payment of K20,000 bearing Cheque Number 104703 was paid to Dian Taitoring and Ethel Clare Barari Art and Craft. I was unable to verify the control procedures over the delivery and collection of cash cheques as there was no evidence of a cheque recipients recorded in the register.

## Personnel Files/Staff Ledgers

I noted that the Corporation did not properly maintain personnel files related to history cards and staff ledgers for employees. As such, leaves (furlong, recreational, annual, maternity, sick, and compassionate) taken and leaves accrued were not properly recorded and accurately kept.

Inadequate record keeping of staff files expose the Corporation to the risk of calculating and paying incorrect employee benefits and taxes.

## Small Business Development Corporation

### 54.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 31 December 2012 had been received and arrangements were made to commence the audit without any delay.

The Corporation had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit despite reminders.

## 55. TOURISM PROMOTION AUTHORITY

### 55.1 INTRODUCTION

#### 55.1.1 Legislation

The Tourism Promotion Authority was established under the Tourism Promotion Authority Act 1993. This Act came into operation on 3 June 1993 thereby repealing the Tourism Development Corporation Act 1990. The Authority commenced its operational activities on 1 April 1993.

Under the Tourism Promotion Authority Act all assets held by and obligations and liabilities imposed on the Tourism Development Corporation which related to the functions of the Authority were transferred to it (the Authority), and the rest of the assets and liabilities were transferred to the National Cultural Committee on 3 June 1993.

#### 55.1.2 Functions of the Authority

The principal functions of the Authority are: to foster the development of tourism in PNG; to formulate a tourism policy for consideration by the NEC and to implement the tourism policy approved by the NEC; to promote PNG overseas as a tourist destination; to co-ordinate the overseas promotional efforts of the PNG tourism industry; to encourage the provision, development and expansion of tourism infrastructure, facilities and products in PNG; and to enhance awareness within PNG of the tourism industry and tourism opportunities.

### 55.2 AUDIT OBSERVATIONS

#### 55.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the Authority's financial statements for the years ended 31 December 2012 and 2013 were issued on 9 September 2013 and 10 June 2014 respectively. These reports did not contain any qualification.

#### 55.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the audit and inspection of the accounts and records of the Authority for the years ended 31 December 2012 and 2013 were issued on 9 September 2013 and 10 June 2014 respectively. These reports contained similar observations, hence only the 2013 observations are reproduced as follows.

##### Contract of Employment for Chief Executive Officer

I was unable to authenticate the validity of the payments made to Chief Executive Officer during the year under audit as the signed copy of the current Contract of Employment effective from 2011 was not provided for audit verification by the Authority.

##### Tourism Promotion Authority

The Authority advised that Management was following up with the NEC for the past two years without success to get a signed copy.

## Encashment of Annual Leave Credits

I noted during my review that the Authority's Chief Executive Officer's leave credits had been accruing since 12 November 2001 and due to work commitment, he did not utilise his annual leave. In 2013, the outstanding leave credits accrued to 60 days. Therefore, he was paid the 60 days annual leave (money in lieu of leave) amounting to K23,961. As per General Order Number 14.33, recreational leave shall not be accrued after two and half years (in this case up to 60 days) for public servants. Recreational leave can only be cashed as per General Order Numbers 14.39 and 14.40 when an officer ceases to be an officer through resignation, retirement or retrenchment; or an officer dies or presumed to have died, in this case the payment shall be made to the dependents of the officer. The Authority had concurred with my observation and advised me that it would comply with the audit recommendations.

## Internal Audit Unit

I noted that the Authority has not established an Internal Audit Unit in accordance with the provisions of Section 9 of the PFMA (Amendment) Act, 2004. I brought this requirement to the attention of Management and it had responded that the Authority will look at changing its internal structure to have an Internal Auditor in 2015.

## 56. UNIVERSITY OF GOROKA

### 56.1 INTRODUCTION

#### 56.1.1 Legislation

The University of Goroka was established under the University of Goroka Act 1997. This Act came into operation on 1 January 1997.

Under this Act, the Goroka Campus of the University of PNG was transferred to the University of Goroka together with all staff and students, buildings and grounds, equipment, teaching and research facilities, and other assets and liabilities both within and outside the College Campus.

#### 56.1.2 Objectives of the University

The objectives of the University are dedicated to the pursuit, advancement and dissemination of knowledge, understanding and wisdom; the paying of particular attention to the human resource development and other development needs of PNG; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and community service.

#### 56.1.3 Powers of the University

The University shall have the power to:

- \* Grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
- \* Provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
- \* Provide facilities for extramural study and continuing education to persons, whether members of the University or not, in such fields and in such manner as the University may from time to time determine;

- \* Co-operate in pursuance of any of the objectives of the University with any other bodies or persons to enter into agreements authorised by Statute with institutions for their affiliation with or incorporation into the University;
- \* Subject to the SCMC Act to appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
- \* Provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residence;
- \* Regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- \* Cancel, annul or revoke any act done in the exercise of these powers; and
- \* Do all such other acts or things as may be done under the provisions of this Act or these powers or as may be conducive to the exercise of the attainment of any of the objectives of the University.

#### 56.1.4 Subsidiary of the University

The University has a Subsidiary Company, Unigor Consultancy Limited. Comments in relation to this Company are contained in paragraph 56A of this Report.

### 56.2 AUDIT OBSERVATIONS

#### 56.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the University's financial statements for the years ended 31 December 2009 and 2010 were issued on 18 November 2013. These reports contained similar Disclaimer of Opinion, hence only the 2010 audit report is reproduced as follows:

#### “BASIS FOR DISCLAIMER OF OPINION

##### Opening Balances

My report for the year ended 31 December 2009 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of Fixed Assets, Capital Expenditure & Public Investment Programs, Cash at Bank, Sundry Creditors, Sundry Debtors, Income and Expenditure. Since these opening balances entered into the determination of the results of operations and cashflows of the University in 2010, I was unable to determine the adjustments to the results of operations and cashflows might have been necessary for the year ended 31 December 2010.

##### Fixed Assets Register – K37,750,680

Fixed Assets were disclosed as K37,750,680 in the financial statements for the year ended 31 December 2010. However, the University did not maintain a proper, complete and accurate Fixed Assets Register to record the details and movements of assets under its custody and control. My examination revealed that the assets register was incomplete reflecting incomplete assets details and improper asset classifications. Further, I was unable to physically inspect certain assets against the records to confirm the existence and occurrence of these asset accounts due to the absence of a complete register. Consequently, I was unable to satisfy myself as to correctness of the measurement, existence and completeness of the fixed assets valuing K37,750,680 at 31 December 2010.

## Capital Expenditure & Public Investment Program – K29,685,229

The review conducted by Price Waterhouse Coopers for the period 1997 to 2004 for Government of PNG and Other Grants up to 2008, totalling K41,738,400 was not taken up in the general ledger and the financial statements of the subsequent years. The accounting treatment for the Capital Grants was not consistent with the International Accounting Standards (IAS 20).

Furthermore, Capital Grants were stated as K22,744,323 in the general ledger for the year ended 31 December 2010. However, I was not able to determine whether the respective funded projects including the Library and the Auditorium were included in these capitalisations and were taken up in the Fixed Assets Register. I was also not provided the amortisation schedules and respective supporting documentation in relation to the capitalisation of these grants. As a result of these limitations, I was unable to state whether the account was fairly disclosed in the financial statements for the year ended 31 December 2010.

## Cash at Bank

Cash at bank was stated as K8,320,672 in the financial statements for the year ended 31 December 2010. However, the following matters will collectively affect or has potential to affect the accuracy and the completeness of the carrying amount of the University's Cash at Bank balance for the year ended. Accordingly, I was unable able to confirm the accuracy and completeness of the account balance as stated.

## Direct Bank Debit of K4.0 million

At the BSP Bank, Goroka Branch an internal bank direct debit of K4 million was made to the University's General Operating Account. I was not provided any supporting documentation or conclusive explanations regarding the propriety of this direct bank entry.

## Un-presented and Cancelled Cheques (General Account)

Un-presented cheques totalling K3,003,230 were not supported with proper and appropriate documentary evidence. Further, cancelled cheques totalling K170,758 were not included in the listing of the un-presented cheques and as this error remain as such, the un-presented cheques list was understated.

## Stale Cheques – K1,561,477 (General Account)

Stale cheques totalling K1,561,477 were used as reconciling items in the bank reconciliations for the year ended 31 December 2010. However, I was not provided the detailed schedules kept by the University.

## Overdraft Bank Account (General Account) – K3,028,064 (Dr)

In Note 5 to the financial statements, the University's General Bank Account was disclosed as K3,028,064 overdrawn. However, the University did not reconcile the bank account balance at 31 December 2010. Further, I was not provided the subsequent bank reconciliation statements to confirm the validity and the correctness of the account balance for the year ended 31 December 2010.

## Bank Reconciliations

The University maintained four bank accounts during the year. My examination revealed that these accounts were not properly recorded, reconciled and maintained.

## Trade Creditors – K736,736

In Note 7 to the financial statements, Trade Creditors were stated as K736,736. I was not provided with the aged listing from the MYOB Accounting System and the relevant supporting documentation. Consequently, I was unable to ascertain the validity, measurement and the correctness of the account balance presented in the financial statements.

## DISCLAIMER OF OPINION

Because of the existence of the limitation of scope on my work as described in the qualification paragraphs, and the effects of such adjustments, if any, that might have been determined to be necessary had the limitations not existed, I was unable to and do not express an opinion on the financial statements of the University for the year ended 31 December 2010.”

## 56.2.2 Audit Observations Reported to the Minister

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the University for the years ended 31 December 2009 and 2010 were issued on 18 November 2013. These reports contained similar observations, hence, only the 2010 observations are reproduced as follows.

### Revaluation of Fixed Assets

In 2003, the University conducted a revaluation exercise and determined the market value of its fixed assets as K53,918,605. I was advised that the revaluation figures were initially taken up in the books of the University but were later rejected and excluded from the financial statements of the subsequent years, as certain alterations were made without the Council’s approval. This was reported in my reports to Parliament and to date the University failed to incorporate the said values in its Books. The inaction resulted in the University’s Fixed Assets being undervalued by K53,918,605 and it did not represent a true and fair value of the University’s Assets.

### Insurance Coverage

The financial statements disclosed fixed assets as K37,750,680 at year end. I noted that the University did not insure its property, plant and equipment and other related items to guard against any unforeseen events of loss through perils such as fire.

### General Ledger Control Account Reconciliations

The General Ledger Control Accounts are key internal control processes to maintain integrity of the financial data. I noted that some of the main accounts such as Trade Creditors, Salary Creditors, Sundry Debtors, GST paid, Group Tax Creditors, Staff Entitlement, Operating Income and Expenditures contained material reconciliation variances which were not properly explained.



I recommended Management reconcile these differences and I was assured that in future all the supporting schedules, general ledgers, trial balance and accounting records will be kept, updated and reconciled accordingly.

#### Cash Advance Control

The University expensed a total of K2,246,285 for students' teaching practice in 2010. However, it did not maintain an Advance Register to record the advances that were made to students and staff and to record the acquittals that were made during the year. As there was no register, I was unable to trace and confirm the correctness and completeness of the advances made and whether, those advances were correctly and properly acquitted and accounted for during the year. Further, the University did not comply with the provisions of the PFMA.

#### Missing Vouchers

Payments totalling K127,405 were made from thirty four payment vouchers. However, I was not provided the paid vouchers for my review and verification. Consequently, I was not able to confirm and verify the validity and correctness of the respective expenditure presentation made in the financial statements excluding depreciation and salaries and wages.

#### Report under Public Finances (Management) Act

The University is required to submit an annual report on performance and management and a quarterly report on all investment decisions, a detailed report on investments, performance and returns for each year and a Five Year Investment Plan (up-dated each year) setting out investment policies, strategies and administrative systems to be pursued and providing forecasts of investment flows and returns. However, I noted that Management did not submit its relevant reports as required under Section 63 (2) of the PFMA to the Minister for the year ended 31 December 2010.

### 56.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the University for the year ended 31 December 2011 was completed. However, Management had not responded to my Management Letter despite numerous reminders.

The University submitted its financial statements for the year ended 31 December 2012 for my inspection and audit and arrangements were being made to commence the audit without delay.

The University had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

## 56A. UNIGOR CONSULTANCY LIMITED (Subsidiary of the University of Goroka)

### 56A.1 INTRODUCTION

Unigor Consultancy Limited is 100% owned by the University of Goroka. It was incorporated in March 2000 as a consultancy company under the Companies Act.

## 56A.1.1 Objectives of the Company

The Company's objectives are to:

- \* Advance, promote, assist and encourage the educational purposes of the University through;
- ? Short term programs for and on behalf of the University tailored to the needs of clients; and
- ? Research, consultancy, and publication of all educational materials for commercial purposes;
- \* Conduct or undertake any other business activity both within and outside of PNG; and
- \* Expand and diversify business activities to maximise profits and to promote the interest of the Shareholder from time to time.

## 56A.1.2 Functions of the Company

The core function of the Company is to provide services in four key areas:

1. Professional consultancy services, teaching and dissemination of knowledge;
2. Merchandising of text books, educational supplies and stationary;
3. Printing and publication of educational materials, textbooks, business documents and all other forms of print material; and
4. Catering and cafeteria services.

## 56A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2010, 2011, 2012 & 2013 for my inspection and audit despite numerous reminders. The Company advised me on 7 May 2014 that it has outsourced the accounting services to a private accounting firm that will assist in preparing the financial statements for the above years and submit them to the Company in due course.

## 57. UNIVERSITY OF NATURAL RESOURCES AND ENVIRONMENT

### 57.1 INTRODUCTION

#### 57.1.1 Legislation

The University of Vudal was established under the University of Vudal Act 1997. This Act came into operation on 1 January 1997. The University changed its name to University of Natural Resources and Environment in 2008 and became operative in the same year.

Under this Act, the Vudal University College Campus of the PNG University of Technology was transferred to the University of Vudal with all staff and students, buildings and land, equipment, teaching and research facilities, and other assets and liabilities both within and outside the College Campus.

Although the new entity was created by the Act in 1997, the finance and accounting function was transferred to the University of Vudal only on 1 January 1998.

#### 57.1.2 Objectives of the University

The Act states the objectives of the University as: dedication to the pursuit, advancement and dissemination of knowledge, understanding and wisdom; the paying of particular attention to the human resource development and other development needs of PNG; and endeavouring to achieve academic and professional excellence to meet those needs through teaching, research and

community service.

### 57.1.3 Powers of the University

Section 6 of the Act enshrines the University as having the power to:

- \* Grant such degrees as are authorised by the Statutes and such diplomas, certificates or other academic awards as it determines;
  - \* Provide instruction and facilities for study, education and research to persons registered as preparing for degrees, diplomas, certificates or other awards of the University;
  - \* Provide facilities for extramural study and continuing education to persons, whether members of the University or not, in such fields and in such manner as the University may from time to time determine;
  - \* Co-operate in pursuance of any of the objectives of the University with any other bodies or persons to enter into agreements authorised by Statute with institutions for their affiliation with or incorporation into the University;
  - \* Subject to the SCMC Act appoint academic, administrative and other staff on such terms and conditions of service as the University may determine;
  - \* Provide for promoting the health and general welfare of the students of the University, including the establishment and supervision of residences;
  - \* Regulate and enforce discipline among the employees and students of the University by such measures as the University may determine;
- \* Cancel, annul or revoke any act done in the exercise of these powers; and
- \* Do all such other acts or things as may be done under the provisions of this Act or these powers or as may be conducive to the exercise of the attainment of any of the objectives of the University.

### 57.2 AUDIT OBSERVATIONS

#### 57.2.1 Comments on Financial Statements

My reports to the Ministers under Section 8 (4) of the Audit Act on the University's financial statements for the years ended 31 December 2011 and 2012 were issued on 28 November 2013. The reports contained similar Qualified Audit Opinions, hence only the 2012 report is reproduced.

#### "BASIS FOR QUALIFIED OPINION

##### Staff Entitlement

The staff entitlements disclosed was K2,469,848 in the financial statements at 31 December 2012. This amount comprised of provision of K2,195,750 for furlough leave and contract gratuity provision of K274,098 at the year end. The entitlement for furlough leave and the other movements in respect of these accounts were not properly updated and provided for audit verification. As a result, I was unable to perform the necessary examination to confirm whether the amount has been fairly stated in the financial statements.

##### Asset Valuation

The University did not carry out a valuation exercise on all its assets since the last valuation done was in 1997. The International Accounting Standards 16 (IAS 16) on Property, Plant and Equipment requires all classes or assets of similar class to be revalued at a regular interval to ensure that the carrying amounts of the fixed assets do not materially differ from the fair value determined

through valuation. Consequently, I was unable to ascertain the true carrying value of these assets at the year end.

#### Valuation of Farm Livestock at Oro & Main Campuses

The University's Vudal and Oro Campus Farms have several herds of livestock. However, the valuations of livestock were not disclosed in the financial statements. Further, I noted that the farm accounting procedures were not adopted in the accounting for the Vudal Farms Operations. In the absence of the disclosure and appropriate method of accounting, the University's accounting for the Farm Operations and the valuation of livestock were not properly reflected in the accounts.

#### QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the Basis for Qualification paragraphs above:

- (a) The financial statements of the University are based on proper accounts and records; and
- (b) The financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the University as at 31 December 2012 and the results of its financial operations and the cash flows for the year then ended."

#### 57.2.2 Audit Observations Reported to the Ministers

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the University for the years ended 31 December 2011 and 2012 were issued on 28 November 2013. The reports contained similar observations, hence only the 2012 report is reproduced.

#### Internal Control

During my examination, I noted significant weaknesses in the internal controls implemented by the University. The main reason for this weakness was that there have been shortages of skilled staff at various Sections of the University. During my review, I noted that the spreadsheet records on PIP and other funds were not properly maintained, updated and checked by the appropriate officers. The bank accounts reconciliation have not been performed on a regular basis, checked and approved by appropriate officers. The Sectional/Divisional Heads including Clinic, Canteen, Masters Management Studies, Farm and Estates and Human Resource Unit did not furnish the financial information on their operations on a regular basis to the Bursary Department.

#### Business Management Account (Planning & Monitoring Unit)

The University maintained a Business Management Account (BMA) for receiving project funds for rehabilitation, public investment program and for other business activities. I noted that the maintenance and the reporting of the receipts and payments by the Planning and Monitoring Unit was not effective.

The relevant reports were not provided to Bursary Department on a timely basis to update their records. The Senior Officer who was in charge of the Planning and Monitoring Unit was also the custodian of BMA. Due to the limited accounting background of the Senior Officer, the books of accounts were not properly maintained.

I recommended that the Management transfer the BMA to the Bursary Department or employ a competent and skilled Accountant to manage the account. University Management concurred with my recommendation and agreed to make necessary changes to the Planning and Monitoring Unit.

### Rehabilitation and Project Cost

The Rehabilitation and Project Cost was stated as K24,583,104 at 31 December 2012. However, the Completion Certificates of the completed projects including Chancellery Building renovation and others were not provided for audit verification. Further, it was also noted that the University had not properly supervised and monitored these projects.

### Statutory Liabilities

As stated in Note 5 to the accounts, I noted group tax liabilities of K4,323,725 from 2007 to 2012 was outstanding as at 31 December 2012. The practice of accumulating group tax is not in compliance within the Income Tax Act 1959 and attracts penalties for the University. Consequently, the University was served notices from the IRC for non-payment of group tax. I raised my concern with the University and it responded to my observation as follows: "Like all other institutions in the social sector, the statutory liabilities/obligations can only be settled once the university has surplus for the month. PNG UNRE has been committed in its settlement of these liabilities and will continue to do through a down-payment schedule prepared."

### Accounting System (MYOB)

Audit review on the MYOB Accounting System used by the University revealed a number of anomalies. The MYOB System was not configured to roll over accounts balances from one accounting period to the next accounting period. Further, most of the staff did not know how to use MYOB System.

As a result, the process of data entry, performing bank reconciliation on the MYOB System and drawing various reports from the system on a timely basis became a difficult task. Further, the bank account opening balances were taken from the 31 December bank statement balance when it should have been the automatic system rollover from the MYOB Accounting System. Further, fixed assets, debtors and creditors accounts had not been set up or configured in the MYOB General Ledger System and as a result, prior balance sheet account balances had not been carried forward to the beginning of the next accounting period.

I recommended Management configure the MYOB Accounting System to rollover year end account balance to the new accounting period. This is to simplify accounts work and alleviate stressful effort of re-entering entries manually.

Management since responded to my observation as follows: "The MYOB Accounting System used is a version 13 single-user, with one CD key to activate its use. To run it on all machines, one year accounts will be closed to affect a new year. No roll-over can take place thereby allowing manual input of opening balances.

UNRE is in contact with MYOB facilitators to assist train UNRE staff to properly roll-over and carry on closing balances in the new year and at the same time UNRE has purchased a multi-user version 18 of the MYOB Accounting System which will be installed and trainings conducted to fully utilise MYOB Accounting Systems at UNRE for its financial reporting outside of the PGAS System".

## Fixed Assets Register

During my examination, I noted that the University's Fixed Assets Register was not updated. I also observed that there was no depreciation rates indicated in the Fixed Assets Register. The 2012 additions were not updated in the Fixed Assets Register and the Fixed Assets balance was not updated and reconciled regularly to the general ledgers.

I recommended Management update the Fixed Assets Register on a regular basis.

### 57.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the University had submitted its financial statements for the year ended 31 December 2013 and preparations were being made to commence the audit without any delay.

## 58. UNIVERSITY OF PAPUA NEW GUINEA

### 58.1 INTRODUCTION

#### 58.1.1 Legislation

The University of PNG was established under the University of PNG Act (Chapter 169).

#### 58.1.2 Objectives of the University

The objectives of the University include the:

- \* Provision of facilities for study and education;
- \* Giving of instruction and training in all such branches of learning as are provided for by the Statutes;
- \* Aiding by research and other means the advancement of knowledge and its practical application;
- \* Conferring, after examination, of the degrees of Bachelor, Master and Doctorate and such other degrees, diplomas, certificates and other academic honours as are authorised by the Statutes;
- \* Provision of facilities for university education throughout the country by the affiliation of educational institutions, and by the establishment of tutorial classes, correspondence classes, university extension classes, and vacation classes, and by such other means as the Council thinks appropriate; and
- \* Liaison, collaboration and reciprocation with other universities and institutions of learning, within or outside the country, in the provision of facilities, the recognition of degrees and other status, and the interchange of staff, students and information, and in any other way not inconsistent with its status as the University.

#### 58.1.3 Subsidiaries of the University

The University has two subsidiaries, Unisave Limited and Univentures Limited, which were incorporated under the Companies Act.

Comments in relation to the subsidiaries are contained in paragraph 58A and 58B of this Report.

### 58.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the University's current Management had submitted its financial statements for the years ended 31 December 2009, 2010, 2011 and 2012 for my inspection and audit. Arrangements were being made to commence the audits at the earliest possible.

The University had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

## 58A. UNISAVE LIMITED (Subsidiary of Univentures Limited)

### 58A.1 INTRODUCTION

#### 58A.1.1 Legislation

Unisave Limited was incorporated under the Companies Act on 18 October 2011.

The incorporation of Unisave Limited was as a result of a Memorandum of Agreement (MOA) signed between the Univentures Limited, (a company 100% owned by University of PNG) and S.I.T Co. Limited of Republic of South Korea.

#### 58A.1.2 Objective of the Company

The parties to this MOA shall endeavor to create mutual commercial benefits through assembly and sales of Information Communication Technology (ICT) products and various projects which have price and quality competitiveness compared with other organisations in PNG. This will be achieved by combining of infrastructures and marketing power in PNG provided by Univentures and the technical know-how and successful long-term various experience in Korean ICT market provided by S.I.T.

The main business of the Company is to assemble TVs, PCs, laptops, monitors and other items which can be included under mutual consent, such as systems integration, systems administration and maintenance in information technology.

### 58A.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2011 had been completed and the results were being evaluated.

The financial statements for the years ended 31 December 2012 and 2013 had not been submitted for my inspection and audit.

## 58B. UNIVENTURES LIMITED (Subsidiary of University of PNG)

### 58B.1 INTRODUCTION

#### 58B.1.1 Legislation

Univentures Limited was incorporated under the Companies Act on 2 August 2007. The Company has a total issued capital of one ordinary share of K1.00 and is wholly owned by the University of PNG.

## 58B.1.2 Functions of the Company

The activities of the Company are to sell and print books in the Bookshop and the Printery respectively, as a business arm of the University of PNG.

## 58B.2 AUDIT OBSERVATIONS

### 58B.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the Companies Act on the financial statements of the Company for the years ended 31 December 2007 to 2011 were issued on 24 June 2014. These reports contained similar Disclaimer of Opinions, hence, only the 2011 report is reproduced as follows.

#### “BASIS FOR DISCLAIMER OF OPINION

##### Opening Balances

My report for the year ended 31 December 2010 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of property, plant and equipment, creditors and borrowings, cash and cash equivalents, inventory, other receivables and tax balances. Since these opening balances entered into the determination of the results of operations and cash flows of the Company in 2011, I was unable to determine whether adjustments to the results of operations and cash flows might have been necessary for the year ended 31 December 2011.

##### Limitation of Scope Regarding Accounting Records

The Company did not maintain adequate and proper accounting records and registers to form the basis for a systematic preparation of the financial statements. There were no proper control ledgers and documentary evidence in support of the account balance reported in the financial statements. There was a serious breakdown in the accounting system as a whole which effectively meant that I was unable to place any reliance on the completeness and accuracy of the accounts.

The financial statements were poorly prepared and had no proper supporting documentation and reconciliations and were prepared from incomplete and insufficient records resulting in the limitation in my audit scope. As a result, it was impracticable to extend my audit procedures sufficiently to determine the accuracy of the information recorded in the financial statements. The following deficiencies were highlighted:

\* In Note 11 to the financial statements, Fixed Assets were stated as K751,657. However, the Company did not maintain a proper, complete and accurate Fixed Assets Register to record the details and movements of assets under its custody and control. Physical inspection of certain assets against the records to confirm their occurrence and existence was not possible because of the absence of a proper register;

\* I noted that K427,687 spent in 2010 for maintenance of the building owned by UPNG was capitalised, which was not appropriate since the building was not owned by the Company. As a result, I was unable to determine the completeness, existence, accuracy and valuation of the fixed assets valuing K770,112;



- \* Cash at Bank was stated as K130,509 in the financial statements. However, the bank balance of Unisave Limited was not included in the consolidated financial statements. Further, in the financial statements, the cash balance of UPNG Bookshop was K107,533; but the cashbook balance showed K970,981 as a closing balance leaving an unreconciled difference of K863,448;
- \* The Cash Flows Statement was not complete and appropriately prepared as part of the financial statements as required by IAS 7 Statement of Cash Flows. The net decrease for the year was K398,469, however, K70,567 was taken up as net decrease by which the year-end cash balance was showing a debit balance of K130,509, instead of an overdraft of K197,393. Therefore, I was unable to ascertain the accuracy of the closing cash balance stated as K130,509 in the financial statements for the year ended;
- \* The Statement of Changes in Equity disclosed that K1,000,000 was paid by University of PNG (UPNG) towards the capital of Univentures Limited. However, I was not provided with relevant documentation to verify the correctness of this money received from UPNG towards the capital of Univentures Limited;
- \* Listing of Trade Debtors and Other Debtors didn't have individual break-ups to determine whether adequate control was in place and recovery had been done. Further, no subsidiary ledger was created to determine the recoverability of the debts and whether provision was needed for doubtful debts. Therefore, I was unable to ascertain the accuracy of the balance of K2,997,104 taken up as receivables;
- \* I was unable to ascertain the valuation and measurement of the Stock Value of K1,346,113 as stated in the financial statements since no stock cards were maintained. Also, the stock count sheets used for the year-end stock-take were not made available for my review;

#### Univentures Limited

- \* Other Creditors amounting to K3,034,069 was payable to UPNG towards Bookshop staff salaries and wages and outstanding utility bills. However, I was not provided with relevant documentation between the Company and the University to determine whether it would be appropriate for the University to use the Government Grant for running its business arm;
- \* I was unable to verify whether all the Sales and Receipts were accounted for and banked on time, since no adequate documentation was maintained by the Company. Also, the accounting system in the processing of sales, receipting and banking were not made available; and
- \* The correctness, occurrence and validity of the payments made for the period under review could not be verified since source documents were not made available for my review.

#### DISCLAIMER OF OPINION

In my opinion, because of the existence of the limitation on the scope of my work, as described in the preceding paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, I was unable to and do not express an opinion as to whether the accompanying financial statements gives a true and fair view of the financial position of the Company's financial performance and its cash flows for the year ended 31 December 2011:

- (a) I was unable to form an opinion as to whether proper accounting records have been kept by the Company, so far as appears from my examination of those records; and
- (b) With the exception of the matters described above, I have obtained all the information and explanations I have required."

#### OTHER MATTERS

In accordance with the Audit Act I have a duty to report on significant matters arising out of the financial statements, to which the report relates. I draw attention to the following issues:

### Purchase and Pricing of Materials

There was no policy in respect of purchase and pricing of book materials and it was solely decided by the Bookshop Manager. This unilateral decision may lead to bad decisions and bring financial loss to the Company. I brought this to the attention of Management and they responded that: “we agree with your observations but this matter will now be raised with the Senior Management of the University.”

### Employment of Staff

I noted that the Company has engaged casuals and part-time staff in 2008. However, this was not consistent with the Governing Rule of UPNG and Public Service Labour and Employment Act, where an employee cannot be engaged as a casual for more than three consecutive months.

I brought this to the attention of Management and they responded that: “we agree with your observations but this matter will now be raised with the Senior Management of the University.”

### Companies Act Requirements

Annual Returns were not filed with Investment Promotion Authority (IPA) within six months following the end of the financial year as required by the Companies Act. I brought this to the attention of Management and they responded that, “your findings are noted.”

## 58B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its financial statements for the years ended 31 December 2012 and 2013 for my inspection and audit despite numerous reminders from my Office.

## 59. WATER PNG (Formerly PNG Water Board)

### 59.1 INTRODUCTION

#### 59.1.1 Legislation

PNG Waterboard was established by the National Water Supply and Sewerage Act 1986, which came into operation on 1 January 1987. The 1986 Act repealed the National Water Supply and Sewerage Act (Chapter 393) and thereby abolished the National Water Supply and Sewerage Board. On 10 December 2010 PNG Water Board changed its name to Water PNG.

#### 59.1.2 Functions of Water PNG

Water PNG is entrusted with co-ordinating, planning, designing, construction, management and charging for water supply and sewerage services throughout the country.

## 59.2 AUDIT OBSERVATIONS

## 59.2.2 Comments on Financial Statements

My report to the Ministers under Section 8 (4) of the Audit Act on the financial statements of the Company for the year ended 31 December 2010 was issued on 18 June 2014. This report contained a Disclaimer of Opinion.

### “BASIS FOR DISCLAIMER OF OPINION

#### Limitation of Scope due to Opening Balances

My audit report for 2009 was issued with a number of qualifications. The 2009 audit report outlined the limitation of scope arising from insufficient information being made available to confirm the following balances: Trade Payables – K2,853,281, Revaluation Reserve – K1,246,712 and GST – K46,416. Further, due to the lack of records and adequate reconciliations, I was unable to perform sufficient audit procedures to satisfy myself as to the completeness and accuracy of these opening balances.

Since these opening balances entered into the determination of the results of operations and cash flows of Water PNG in 2010, I was unable to determine whether adjustments to the results of operations and cash flows might have been necessary for the year ended 31 December 2010.

#### Revaluation of Fixed Assets

The Fixed Assets of Water PNG represent a significant proportion of its Balance Sheet, therefore, revaluations are to be performed on an ongoing basis at least once in every three years. However, in prior years there was no revaluation performed to determine the current valuations for the organisation's assets.

In 2010, the Board did not incorporate the new valuations of Land and Buildings based on the valuation report performed by TOL Valuer Limited as well as preparing the Depreciation Schedule based on the report. As a result, the financial statements for 2010 are materially misstated.

Further, the valuation performed in 2010 was limited in scope and was conducted only for the Land and Buildings; however, the rest of the assets owned by Water PNG were not revalued for a number of years, which is contrary to the requirements of the International Accounting Standards IAS – 16 Property, Plant and Equipment.

#### Land and Buildings at Arawa – Bougainville

The financial statements disclosed a total of K205,725,837 as fixed assets, and this includes assets held in Arawa, Bougainville, at a written down value of approximately K1.8 million. This value includes buildings and infrastructure and it has been impossible to visit the area since the crisis, and it is likely that these assets are non-operational, obsolete, damaged, misplaced or stolen. Therefore, I was unable to ascertain the validity of these assets included in the financial statements as at 31 December 2010.

#### Land Title Deeds

Water PNG does not have complete records, title deeds or legal proof of ownership of number of the properties including the assets under Land and Buildings. Currently there is no comprehensive

listing of the properties owned by Water PNG. The organisation only has title deeds for some of its properties, however, at the time of my audit, I was unable to sight these title deeds. As such, I was unable to verify the ownership of the pieces of Land claimed to be owned by Water PNG as at 31 December 2010.

### Work in Progress

Note 7 to the financial statements under fixed assets include an opening balance of K68,457,763 as Work In Progress (WIP). This amounts to a third of the value of the organisation's assets. However, I was not provided with a detailed schedule of all the WIP for my review to determine the current status of these projects. Further, during the year, K58,043,638 has been transferred from WIP to the fixed assets, however, all the relevant source documentation, completion report and project audit report on these WIP were not made available for my review to determine the validity and accuracy of the value of assets transferred to fixed assets in 2010. Consequently, I was unable to determine the accuracy of the WIP stated in the financial statements amounting to K10,592,135 as at 31 December 2010.

### Physical Stock-take of Water PNG Assets

The physical stock-take of fixed assets of Water PNG across the country as reported in the financial statements had not been done for a number of years. As a result, no accurate information was available on the status of the assets in respect of disposed, obsolete, damaged or stolen assets.

This fundamental failure indicates a lack of control over Water PNG's fixed assets that are currently recorded at a net book value of K205,725,837. Consequently, I was unable to ascertain the accuracy of the value of the fixed assets taken up as K205,725,837 as at 31 December 2010.

### Financial Statements for Provincial Water Supply Projects

The audited financial statements of the Provincial Water Supply Projects were not made available for my review to determine whether all the projects were completed, so they could be transferred to the fixed assets. However, audit was advised that there were no new projects that were in progress in 2010 and furthermore the audit report of the projects for 2008 remained outstanding. I was unable to verify the projects that have been completed and commissioned for the earlier years by the Project Management Unit (PMU) for capitalisation. Therefore, as mentioned under work in progress, I was unable to verify the value of assets transferred to the fixed assets and the consequential effects on the financial statements of Water PNG for the year ended 31 December 2010 in respect of the Provincial Water Supply Projects.

### Trade Debtors - K17,553,526

There is an unreconciled difference of K996,928 between the financial statements and the trial balance in respect to trade debtors. Further, a total of K19,408,012 was provided for as bad and doubtful debts at year end, which amounts to 50% of the total trade debtors. However, the policy of the Water PNG in respect of provision for the Debtors was not made available for my review to determine whether the provision had been made as per the policy and whether it was adequate. As such, I was unable to determine the accuracy of the balance of K17,553,526 taken up as Trade Debtors as at 31 December 2010.

## Trade Debtors – Other

Other Debtors amounts to K2,658,085 and consists of a number of material accounts that have been outstanding for more than ten years. The documentation or supporting schedules for these amounts were inadequate to determine its recoverability. The balance appears to have a material impact on the financial position for the year ended 2010. Therefore, I was unable to ascertain the accuracy of the balance taken up amounting to K2,658,085 as other trade debtors as at 31 December 2010.

## Other Current Assets

Other Current Assets amounting K1,404,334 consists of a number of accounts. However, no adequate documentation was made available for my review to verify the existence and recoverability of these receivables.

Most of this balance appears unrecoverable and it has a material impact on the results for 2010. As such, I was unable to validate the balance taken up under other current assets amounting to K1,404,334 as at 31 December 2010.

## Bonds and Refundable Deposits

Bonds and Refundable Deposits of K3,111,349 were recorded in the financial records and disclosed under Long Term Borrowings. No schedule or documentary evidence was provided to enable me to verify the amount owing. Therefore, I was unable to verify the accuracy of this liability as at 31 December 2010.

## Trade Creditors

Trade Creditors amounting to K2,546,566 were reported in the financial statements. However, these amounts were not supported by any source documents or supplier statements for me to determine the accuracy of the balance at year end. The trade creditors listing produced from the Pronto System was incomplete. When I performed cut-off testing procedures to verify the unrecorded liabilities, I noted that a significant amount totalling K2,322,742 was not recorded as creditors in the 2010 accounts. Therefore, the trade creditors' balance was materially understated at the year end.

Also, there was a difference of K220,732 that existed between trial balance and the Pronto creditors listing. As such, I was unable to determine the accuracy of the balance taken up as trade creditors as K2,546,566 as at 31 December 2010.

## Other Payables and Accruals Deposits

Other Payables and Accruals shown in the financial statements amount to K2,560,488. However, I was not provided with the detailed schedules, reconciliations or source documents for my verification. Therefore, I was unable to confirm whether the amount recorded as K2,560,488 as Other Payables and Accruals at year end was accurate.

## Asian Development Bank Loan

A total of K90,412,512 was recorded under liability as long term borrowings due to the Asian

Development Bank (ADB). This amount represents the costs of water projects completed and funded by the ADB. However, as per the Loan Agreement dated 16 January 2001 the loan is entered into between the Government of PNG (GoPNG) and the ADB.

As per the Loan Agreement GoPNG is the borrower and ADB the lender of funds for specific projects which were to be carried out by Water PNG and on completion of the water projects ownership of the assets is transferred to Water PNG.

As per the documentation on file, Water PNG is not a party in the repayment of the ADB Loan but GoPNG as the primary borrower. I had been informed that there is a Sub-Loan Agreement between the GoPNG and Water PNG but I was not provided with a copy for my review to verify the claim.

My review disclosed that no repayments have been made towards the Asian Development Bank Loan of K90,412,512. Also, no interest appears to be accruing or is being accounted for in respect of this loan in the books of Water PNG.

Due to the absence of complete accounting records and relevant supporting documentation, I was unable to confirm the existence or correct value of this liability to the ADB, whether the loan is being serviced and repaid in line with agreed terms of the agreement.

#### General Accounting and Internal Control Environment Deposits

The operation of the accounting system and the internal control environment at Water PNG appears to be not adequate with the nature of its business. The organisation suffers due to an ineffective management information system that arises from the utilisation of untrained, or unmotivated or unqualified staff as well as an inadequate financial reporting structure. The result of which is slow, ineffective and incomplete accounting as well as unreliable information for management. This increases the risk of suboptimal decision making, as well as incomplete financial records and delayed financial statements.

The reports that were produced by the system were inaccurate and the management was unable to substantiate many of the balances included in the general ledger. This effectively meant neither Management nor any third party could place reliance on the accounting system to give a complete and accurate information. Because of the failures in record keeping, internal control, segregation of duties and Management oversight, I am of the view that Water PNG did not keep proper accounting records of its 2010 financial transactions.

I also observed that Water PNG lacked a proper documentation system which prevented me from testing the internal control system. Number of essential documentation either could not be retrieved or simply did not exist. This resulted in delays and even failures to provide the requested audit information which impacted me to complete the audit as planned.

The lack of proper documentation and the non-adherence to standard procedures and processes is an example of an ineffective internal control system. The absence of documentary evidence of any control procedures restricted me from carrying out tests for compliance of control procedures and processes but in itself is evidence that the procedures were ineffective.

#### DISCLAIMER OF OPINION

In my opinion, because of the limitation of the scope of my work and other matters referred to in the Basis for Disclaimer Opinion paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitations and other matters not existed, I was

unable to and do not express an opinion on the financial statements of Water PNG for the year ended 31 December 2010:

(a) Proper accounting records have not been kept by Water PNG as far as appears from my examination of those records; and

(b) I have not obtained all the information and explanations required.”

## 59.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2010 was issued on 18 June 2014. The report contained the following comments:

### Fixed Asset Register (FAR) – General Observations

A high proportion of fully depreciated assets were still recorded in the Fixed Asset Register (FAR). Most of these appear to be very old assets which may or may not exist. As noted, Water PNG has failed to account for obsolescence or theft of assets. Additionally, many assets recorded in the FAR have no specific identifying details.

There were insufficient details in the FAR as purchase orders were not used in a number of cases and some additions had no supporting documents. Payments for assets were often based on a quote with no invoice filed or available for review. Accounting for GST on asset acquisition was incorrect on a number of purchases made. Number of assets purchased during the year was included in the FAR inclusive of GST, and not fully deducted when recording the assets.

### Inadequate Insurance Cover

I have noted that Water PNG has insurance cover on its fixed assets, however, given the uncertainty regarding the valuation or existence of these assets there is a risk that claims may be undervalued and not cover actual replacement costs or assets which have been damaged or stolen, may not be identified and therefore cannot be claimed from Insurance.

Without an accurate Fixed Assets Register and adequate insurance cover based on such a register, Water PNG is exposed to significant potential financial losses and legal risks from fire, theft and other destructive occurrences.

### Incomplete Set of Board Minutes

The Board Minutes provided for my review were incomplete and were not signed by the designated person. I noted that the Minutes of the Board Meetings that were given to me were not signed off by any Member of the Board including the Chairman or the Secretary of Water PNG. Without the signature of the responsible Members, the Minutes cannot be confirmed to be an official record of the Meetings held. As such, I was of the view that inadequate records of the Board meetings were maintained and the Company failed to perform its legal duties to accurately record the decisions of the Board. It should also be noted that the failure to sign Minutes nullifies any approvals or decisions made by the Board on any issues or resolutions deemed as passed in the Meetings and recorded in those Minutes.

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

Water PNG has failed to comply with the requirements of the PFMA Section 64(2) by not submitting the financial statements on a timely basis to enable me to conduct the audit and support the results before the statutory deadline.

### 59.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2011, 2012 and 2013 had not been submitted for my inspection and audit despite reminders.

## SECTION B

### NATIONAL GOVERNMENT OWNED COMPANIES

#### 60. FOREWORD

This Section of my Report deals with Companies in which the Government of PNG holds more than 50% of the Issued Share Capital. On 26 January 1983, the NEC's Decision No. 12/93 expanded my responsibilities to include the audit of National Government Owned Companies and subsidiaries thereof. The audit of Government Owned Companies is also conferred on to me through Section 3 of the Audit Act.

The auditing and reporting requirements of these companies are stipulated in the Companies Act.

Section 200 of the Act requires the auditor's report on the financial statements to include:

- (a) The work done by the auditor;
- (b) The scope and limitations of the audit;
- (c) The existence of any relationship the auditor has with the Company;
- (d) Whether all information and explanations required have been obtained;
- (e) Whether in the auditor's opinion, proper accounting records have been kept;
- (f) Whether in the auditor's opinion, the financial statements comply with generally accepted



accounting practice and, where they do not, the respects in which they fail to comply; and  
(g) Whether in the auditor's opinion, the financial statements give a true and fair view of the matters to which they relate and, if not, the respects in which they fail to give such a view.

My audit of Government Owned Companies is conducted in accordance with the requirements of the Companies Act. Under Section 8 (2) of the Audit Act, I am also expected to report to the Minister for Finance and Treasury, the matters of significance to do with the accounts and records, the financial transactions and the assets and liabilities. The members of the Company are also informed of the same.

## 61. AIR NIUGINI LIMITED

### 61.1 INTRODUCTION

#### 61.1.1 Legislation

Air Niugini Limited was incorporated under the Companies Act. It was formed to be the successor company of National Airline Commission, following the NEC decision of 20 June 1996 to corporatise the National Airline Commission in accordance with Section 45 of the National Airline Commission Act.

As a result of the NEC decision, all assets, liabilities, staff and operations of the National Airline Commission were to be transferred at the written down book value (as at 31 August 1996) to Air Niugini Limited. Air Niugini Limited is a 100% State Owned Company.

#### 61.1.2 Objectives of the Company

The principal objectives of the Company are to:

- \* Carry on the business of airline operators, general carriers, freight forwarders and forwarding agents, warehouse operators, shippers and general agents, ship owners charterers, hospitality and general traders, stevedores, cool store operators, flight contractors, carriers by land, air and water, insurers and insurance brokers and carried on other business which may be usefully carried on in connection with such business;
- \* Provide transport service, carrier freight transport, courier, taxi truck, light or heavy haulage and delivery services which involves the use of aircraft, railways, ship, road vehicle or any other means of conveyance by land, road, railway, sea, river, canal, water or air to carry and convey passengers, mails, containers, packages, parcels, bulk commodities, goods, merchandise, livestock and produce and property of every description;
- \* Carry, collect, receive, load, unload, store, consign, distribute, transfer and deliver property of every description by any mode of transportation; and
- \* Carry passengers by air, road, rail, land, sea or water and to operate any taxi service and to obtain any necessary licences for such purposes.

### 61.2 AUDIT OBSERVATIONS

#### 61.2.1 Comments on Financial Statements

My report in accordance with the provisions of the Companies Act on the financial statements of the Company for the year ended 31 December 2012 was issued on 24 June 2014. The report

contained a Qualified Opinion.

## “BASIS FOR QUALIFIED OPINION

### Inventory

The Company’s Commercial Inventories are carried in the statement of financial position as at 31 December 2012 at K11,089,769. I noted that reconciliation between stock take count balances and the inventory sub-ledger was not performed and that no adjustment was made for count differences identified.

Accordingly, I was unable to verify the accuracy of commercial inventory. As inventories enters into the determination of financial performance and cash flows, I was unable to determine whether adjustments might be necessary to the statement of financial position as at 31 December 2012 or the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2012.

### Componentisation of Assets

IAS 16 “Property Plant and Equipment” requires that “for each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.” I noted that the Company does not depreciate the components of the aircraft that it owns or finance leases in accordance with IAS 16, rather the aircraft are depreciated as a whole. Due to the difficulty in identifying and separating the components (which are rotated) and calculating the estimated depreciation over their useful lives, I was unable to quantify the effect on the financial statements, however, believe the accumulated effect would be material.

Due to the fact that the Company records its aircraft at fair value based on valuations completed as at 31 December each year, the error would not have any effect on the net assets of the Company and any difference in the statement of financial position as at year end would be a difference between the Revaluation Reserve and the Company’s Profit/Retained Earnings. However, I was unable to determine what adjustments might be necessary to the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2012, and for the comparative year ended 31 December 2011.

### Useful Life of Aircraft

I noted that when an aircraft is revalued each year subsequent to its year of purchase, the original useful life of the aircraft is used to depreciate the new value of the aircraft and not the remaining useful life based on the purchase date. I further noted that certain aircraft have been in service for periods exceeding their original useful lives used for depreciation purposes. As a result, the Company is not formally re-assessing the useful lives of the aircraft at each balance date. This may result in a number of different errors in depreciation calculations, and also in the revaluation increments when aircraft are subsequently revalued.

As with componentisation of assets, due to the aircraft being revalued every year, depreciation errors would not have an effect on the net assets of the Company at year end, however, I was unable to determine what adjustments might be necessary to the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31

December 2012 and for the comparative year ended 31 December 2011.

## QUALIFIED OPINION

In my opinion, except for the effects on the financial statements of the matters referred to in the Basis for Qualification Opinion paragraphs:

(a) The financial statements of Air Niugini Limited for the year ended 31 December 2012:

(i) Give a true and fair view of the financial position and the results of its operation and cash flows for the year ended on that date; and

(ii) The financial statements have been presented in accordance with the Companies Act, International Financial Reporting Standards and other Generally Accepted Accounting Practice in PNG.

(b) Proper accounting records have been kept by the Company; and

(c) I have obtained all the information and explanations that I required.”

### 61.2.2 Audit Observations Reported to the Minister

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2012 was issued on 24 June 2014. The report contained the following observations.

#### Inventory Aging Analysis

During 2012, I have noted that aging of inventory has not been set up in WinAir System and this was carried over and raised from 2011 audit findings. I have noted that an analysis of aged stock had not been completed at the year-end which required adjustments to both consumable and commercial stock obsolescence during the audit and prior year. I also noted that there does not appear to be any formal process to identify obsolete stock for Consumable stock and Commercial stock is done on a manual ad-hoc basis by stores staff.

No aging analysis being done by Management may result in the valuation of inventory not being fairly stated at year end.

#### Receipts and Issues of Rotables

In 2012 audit, I have noted a number of receipts and issues of rotatables not being accounted for. By not correctly recording the movement of rotatables, this may lead to misstatement of value at each reporting date. It may also result in the misappropriation of the assets. Management has noted that this is an ongoing issue and I have been informed that the Company is looking at ways to address this. I have recommended to Management that an appropriate system be introduced for effective control of the rotatables.

#### Componentisation of Assets

IAS 16 “Property, Plant and Equipment” requires that “for each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately”. I have noted that the Company does not depreciate the components of the aircraft that it owns or finance leases in accordance with IAS 16, rather the components of the aircraft were depreciated as a whole. Due to the difficulty in identifying and separating the components (which are rotated) and calculating the estimated depreciation over their useful lives, I was unable to qualify the effect on the financial statements, however, believe the accumulated effect would be material.

Due to the fact that the Company records its aircraft at fair value based on valuations completed at 31 December each year, this would not have any effect on the net assets of the Company and any difference in the statement of financial position as at year end would be a difference between the revaluation reserve and the Company's retained earnings. However, I was unable to determine what adjustments might be necessary to the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2012 and for the comparative year ended 31 December 2011.

Componentisation is made complex to account for by the fact that the Company uses fair value accounting for its aircraft. While I understand that the Company is considering how they may account for componentisation along with fair value accounting, alternative resolutions to this maybe the requirement for the Company to use componentisation, be removed for its reporting purposes, or the Company revert back to cost accounting for aircraft.

#### Useful Life of Aircraft

I noted that when an aircraft is revalued each year subsequent to its year of purchase, the original useful life of the aircraft is used to depreciate the new value of the aircraft and not the remaining useful life based on the purchase date. I further note that certain aircraft have been in service for periods exceeding their original useful lives used for depreciation purposes. As a result the Company is not formally reassessing the useful lives of the aircraft at each balance date. This may result in a number of different errors in depreciation calculations, and also in the revaluation increments when aircraft are subsequently revalued.

As with componentisation of assets above, due to aircraft being revalued every year, depreciation errors would not have an effect on the net assets of the Company at year end, however, there would be a difference between the Revaluation Reserve and the Company's Retained Earnings. I was unable to determine the impact on the statement of comprehensive income and determine what adjustments might be necessary to the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended 31 December 2012 and for the comparative year ended 31 December 2011.

#### Information Technology (GITC)

In the 2012 audit I was unable to take a full controls approach to the audit as many of the Company's General IT controls (GITC) are not effective. This results in a far more substantive audit approach including more intrusive and time consuming procedures. The lack of GITC's should also be a concern for the Company as it indicates there is a higher possibility of misstatement or fraud. A number of specific deficiencies found have been detailed in the Management Letter provided to the Company. It is important that a Company of Air Niugini's size and complexity should have a functioning internal control environment.

I have recommended Management review all IT controls (general and application) to find out all deficiencies and rectify them effectively.

#### Japan Route-Subsidy

I have noted that the route operated by Air Niugini between PNG and Japan has been uneconomical. However, the Government had made a commitment to subsidise the route and an amount of K25,788,301 has been outstanding from the Government for the period 2007 to 2011.

I am of the view that the Government's timely remittance of the subsidy to Air Niugini would improve the Airline's revenue.

## 61.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 was in progress.

## 62. LIVESTOCK DEVELOPMENT CORPORATION LIMITED

### 62.1 INTRODUCTION

#### 62.1.1 Legislation

The Livestock Development Corporation Limited was incorporated under the Companies Act. The share capital is wholly owned by the National Government.

#### 62.1.2 Functions of the Corporation

The main activities of the Corporation are breeding and slaughtering cattle and pigs, purchasing and exporting insects, growing vegetables and fruits, and raising poultry.

### 62.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements for the year ended 31 December 2010 had been submitted for my inspection and audit. However, the audit has not commenced due to relocation of the Corporation to a new location. Further, the change in Management of the Corporation has contributed to the delay in commencement of the audit.

The Corporation had not submitted its financial statements, despite numerous reminders, for the years ended 31 December 2011, 2012 and 2013 for my inspection and audit despite numerous reminders.

## 63. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED

### 63.1 INTRODUCTION

#### 63.1.1 Legislation

The Mineral Resources Development Company Limited (MRDC) was incorporated under the Companies Act. The Company is wholly owned by the National Government. The authorised capital of the Company was increased from 10,000 Ordinary Shares to 10,000,000 Ordinary Shares of K1 each, in June, 1992. An additional 4,906,015 shares were issued to the Independent State of PNG in June 1992, converting the Government grant and the shareholders loan to equity. The Company also acquired the Government's 20% interest in Misima Mines Limited.

#### 63.1.2 Objective of the Company

The principal objective of the Company is to hold the Government's equity in mineral and

petroleum development ventures within PNG.

## 63.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and examination of the financial statements of the Company for the year ended 31 December 2011 was substantially completed and results were being evaluated.

The Company had not submitted its financial statements for the years ended 31 December 2012 and 2013 for my inspection and audit.

## 64. MOTOR VEHICLES INSURANCE LIMITED

### 64.1 INTRODUCTION

#### 64.1.1 Legislation

The Motor Vehicles Insurance (PNG) Trust Limited was incorporated under the Companies Act following the NEC Decision No. 4/98 of January 1998. It was formed to change the status of the then existing Motor Vehicles Insurance (PNG) Trust to conform to the intentions of the NEC for the then PNG Banking Corporation Holding Company No. 1 Limited to acquire the business of the Trust as part of the reform of the financial services sector.

The Trust was incorporated under the Companies Act as Motor Vehicles Insurance (PNG) Trust Limited (MVITL). The shares of this entity which were held by the Independent State of PNG were subsequently sold to the then PNG Banking Corporation, an entity also owned and controlled by the State.

On 31 December 1998, as part of the corporatisation and restructuring programme of the then PNG Banking Corporation Group, PNGBC Limited, PNGBC Holding Co. No. 1 Limited and Motor Vehicles Insurance (PNG) Trust Limited were amalgamated under the provisions of the Companies Act to form an amalgamated Company, PNGBC Limited. The ultimate parent Company of PNGBC Limited was Finance Pacific Limited, a Company wholly owned and controlled by the Independent State of PNG.

With effect from 1 January 1999 Motor Vehicles Insurance Limited was incorporated under the Companies Act to underwrite the third party insurance under the Act in succession to the Trust and MVITL.

The assets of MVITL immediately before the amalgamation with the then PNGBC Limited were transferred to MVIL when it took over the responsibility for providing third party insurance.

### 64.2 AUDIT OBSERVATIONS

#### 64.2.1 Comments on Financial Statements

My report in accordance with the provisions of the Companies Act on the Company's financial statements for the year ended 31 December 2010 was issued on 24 April 2014. The report contained a Qualified Opinion.

#### "BASIS FOR QUALIFIED OPINION

## Loss on Equity Monetisation of BSP Shares

As at 1 January 2009, MVIL owned 530,105,100 shares in Bank of South Pacific (BSP). These shares under Equity Monetisation Contract (EMC) were mortgaged to Nominees Niugini Limited on 22 July 2009 for a loan of K100 Million. The value of these shares mortgaged at the date of transfer was K439,987,233, K0.83/share as per POM Stock Exchange.

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On 6 June, 2011 BSP reconstructed its shares by issuing one share for every ten shares held and 530,105,100 BSP shares owned by MVIL were converted into 53,010,510 shares. On 22 June 2011, 21,766,774 mortgaged BSP shares were retained by Nominee Niugini Limited as a result of the termination of the Equity Monetisation Contract and 31,243,736 BSP shares were transferred back to MVIL.

As a result of this Equity Monetisation Contract, MVIL incurred a loss of K45,837,385 as noted below:

Value of 53,010,510 shares as at 22 June 2011 @ K6.70/ Share	K355,170,417	Value of
31,243,736 shares transferred back to MVIL @K6.70/Share	K209,333,031	Gross Loss Incurred on
the transfer	K145,837,385	
Less: EMC proceed	K100,000,000	
Loss on transfer of BSP Shares as on 22 June 2011	K 45,837,385	

However, this loss was not provided in the accounts of MVIL for the year ended 31 December 2010. Therefore, I was unable to determine the accuracy of the loss taken up as K30,427,895 in the financial statements as at 31 December 2010.

## Overseas Investments

Note 7(a) of the financial statements disclosed a total amount of K633,622,780 as Non- Current Investments. Of this, K100,562,740 relates to overseas investment in Woodlawn Capital, Australia. The Fund Manager's confirmation disclosed that equivalent amount held in foreign currency (Australian dollars) was AUD \$10,875,192. However, I was not provided with the necessary documentation to verify the exchange rate used by Woodlawn Capital to arrive at the K100,562,740 equivalent to AUD \$10,875,192. Therefore, I was unable to verify the accuracy of the non-current investments taken up as K633,622,780 in the financial statements as at 31 December 2010.

## Valuation of Unquoted Shares

MVIL has not determined the fair value of Westpac and Pacific International Hospital shares as these shares are unquoted. Therefore, I was unable to determine the accuracy and valuation of the unquoted shares taken up in the financial statements as K2.9 million.

## QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above:

(a) The financial statements of Motor Vehicles Insurance Limited for the year ended 31 December 2010:

(i) Give a true and fair view of the financial position and the results of its operation and cash flows

for the year ended on that date; and

(ii) The financial statements have been presented in accordance with the Companies Act, International Financial Reporting Standards and other generally accepted accounting practice in PNG.

#### Motor Vehicles Insurance Limited

(b) Except as noted under the Basis of Qualified Opinion and Emphasis of Matter paragraphs, proper accounting records have been kept by the Company; and

(c) I have obtained all the information and explanation as required except for the matter referred to in qualification paragraphs and other matters.”

#### EMPHASIS OF MATTERS

Without qualifying my opinion, I wish to draw the attention to the following matters which I consider significant.

#### Non-Compliance of Companies Act

Further to my qualification in respect of Monetisation of BSP shares of 530,150,100, I have noted that the MVIL Board has erred in law by convening an illegal meeting to obtain a “Special Resolution” of the Board for the Monetisation of BSP shares. According to Section 2 of the Companies Act, “Special Resolution” means the “special resolution of shareholders” and in this case, IPBC. IPBC has not given the consent for this Monetisation Contract before the contract and even after the transaction had taken place.

False declarations were made on the Finance Forms which form part of the Equity Monetisation Contract and Mortgage Contract.

The MVIL Board had contravened Sections 110,112, 114 and 115 of the Companies Act. The respective provisions of the Companies Act referred to, requires that all the Company’s major transactions entered into shall be approved by the shareholders of the Company which is the IPBC, by a Special Resolution. Further, the Directors of the Company shall act in good faith in the best interest of the Company, in that they shall not act or agree to the Company acting in a manner that contravenes the Companies Act and the Constitution of the Company.

As a consequence of their failure, I am of the view that the MVIL Board Members could be penalised under Sections 112 (5), 114 (2) and 115 (2) of the Companies Act and other relevant provisions relating to offences and penalties. These sections impose significant penalties, including financial penalties for failure to comply with the Act.

In my 2009 audit report, I also reported the issue on the non-compliance of the Companies Act by Management of MVIL regarding the loan of K100 million from Nominees Niugini Limited by mortgaging 530,105,100 BSP shares. I mentioned too that the matter was subject to a Special Investigation by my Office.

#### Non-Compliance of Independent Public Business Corporation Act

The K100,000,000 loan arrangement and the mortgaging of the 530,105,100 BSP shares by MVIL Board breached Section 46B of the IPBC Act. The section referred to requires Ministerial approval



from the Minister of Finance and Treasury upon the recommendation of the Managing Director of IPBC. This requirement was not complied with.

#### Operation of Westpac Bank by a Consultant

My review of MVIL's Westpac Corporate Bank Account No. 6000866927 revealed that this account was operated by the former Finance Manager of MVIL. He retired in May 2009 but was engaged as a Consultant on a short-term basis without specifying the period of the contract for a consultancy fee of K342,000 per annum. He operated the bank account until October 2011.

Further, I noted that he was preparing the cheque requisition for the payments made out of this account with Westpac Bank which was totally unacceptable. The top Management of MVIL has failed in its Corporate Governance by allowing a consultant to operate its bank account.

Also, my review revealed that the former Finance Manager paid himself K280,946 being payment for his retirement. However, the payment was not verified by the MVIL Senior Managers for its accuracy.

#### Taxation of Allowances to Employees

My review of the employment benefits revealed that taxable allowances such as housing, motor vehicle and utility allowances were not taxed for a number of Senior Managers. These allowances were not included in payroll but paid directly into personnel accounts and the companies owned by the employees which contravenes Income Tax Act.

#### Retirement Benefit Paid to MVIL Employees

In 2010, three senior managers and two other officers were retired voluntarily. They were paid K1,509,213 as retirement payout. The three managers were paid K1,247,104 as retirement payout as per the new Retirement Policy of MVIL under special dispensation. A total of K772,132 paid out to the three managers was not taxed as per the Income Tax Act.

### 64.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2011 and 2012 were in progress.

The Company had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

## 65. NATIONAL AIRPORTS CORPORATION LIMITED

### 65.1 INTRODUCTION

#### 65.1.1 Legislation

National Airports Corporation Limited was incorporated under the Companies Act. The Company had begun operations in October 2009 after its incorporation on 6 October 2009. The

establishment of the Company has been in accordance with Section 132 of the Civil Aviation Act 2000 which envisaged the establishment of a subsidiary company.

National Airports Corporation Limited is regulated by the Civil Aviation Authority Act 2000 as a Company holding its own operating certificates. Except for the governance requirements specified in the Civil Aviation Act, it operates independently from the Civil Aviation Authority (now Civil Aviation Safety Authority) to incorporate a company under the Companies Act that is, or is to become, owner, operator or manager of an aerodrome or airport and may subscribe for, hold, acquire and dispose of any equity securities or debt securities issued by any such company (in this Act called "as airport company").

#### 65.1.2 Functions of Corporation

The functions of the National Airports Corporation Limited are derived from Section 132 of the Civil Aviation Act.

#### 65.1.3 Subsidiaries of the Corporation

The Corporation has two subsidiary companies: Airport City Development Limited and PNG Air Services Limited. Comments in relation to these companies are contained in paragraphs 65A and 65B of this Report.

#### 65.1.4 Project of the Corporation

The National Airports Corporation Limited also manages the Civil Aviation Development Investment Program (CADIP) which is funded by Asian Development Bank and counter funded by the Government of PNG (GoPNG). Comments in relation to these Project is contained Special Project Audits Report to Parliament.

### 65.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2011 was in progress.

The Company had not submitted its financial statements for the years ended 31 December 2012 and 2013 for my inspection and audit, despite repeated reminders.

#### 65A. AIRPORT CITY DEVELOPMENT LIMITED

##### 65A.1 INTRODUCTION

The Airport City Development Limited was incorporated on 20 August 2009 and was deregistered on 20 April 2010. However, the Company was reinstated on 19 September 2011 as a subsidiary company of the National Airports Corporation. The Company came into operation on 19 September 2012.

##### 65A.2 CHARTER OF THE COMPANY

The Company was incorporated to establish and manage the design, construction and operating stages of the Airport City Project to ensure economic, technically sound and expeditious

completion of the Airport City Project.

### 65A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the financial statements of the Company for the years ended 31 December 2012 and 2013 had not been submitted for my inspection and audit, despite reminders.

### 65B. PNG AIR SERVICES LIMITED

#### 65B.1 INTRODUCTION

##### 65B.1.1 Legislation

PNG Air Services Limited was incorporated under the Companies Act. It is a wholly owned subsidiary of National Airports Corporation Limited. The Company began its operations in January 2008 after its incorporation on 30 April 2007. The establishment of the Company had been in accordance with Section 143 of the Civil Aviation Act which envisaged the establishment of a subsidiary company to deliver “air traffic services, aeronautical navigation services and aeronautical communication services and all related services in PNG and the airspace for which it is responsible.”

PNG Air Services Limited as an Aviation Safety Regulator is an independent Company holding its own operating certificates and, except for the governance requirements specified in the Civil Aviation Act, it operates independently from the Civil Aviation Authority.

##### 65B.1.2 Functions of the Company

PNG Air Services Limited was established with a purpose of delivering safe air navigation services to the airline industries and the travelling public. It ensures provision of quality aeronautical navigation services to both domestic and international customers at a reasonable cost, hence, to be a leader in providing world standard air navigation services. PNG Air Services Limited makes sure that the radio coverage in PNG both VHF and HF are improved and that efficient and effective air traffic services are maintained.

#### 65B.2 AUDIT OBSERVATIONS

##### 65B.2.1 Comments on Financial Statements

My report in accordance with the provisions of the Companies Act on the Company’s financial statements for the year ended 31 December 2012 was issued on 17 February 2014. The report contained a Qualified Opinion.

##### “BASIS FOR QUALIFIED OPINION

Fixed Assets – K16,981,342

The financial statements and the Fixed Assets Register disclosed assets that were acquired since 2007 totalling K16,981,342. However, assets that are presently used by the company but previously held by the Civil Aviation Authority, have yet to be transferred and accounted for in the Company books. These assets include the Control Tower Building, ISS Building, HF Receiver

Station, James Hill (CDVOR/DME) and Rader Hill.

No resolution had been made between the concerned parties in this regard. Therefore, I was unable to ascertain the accuracy of the completeness of the fixed assets taken up in the financial statements as K16,981,342 as at 31 December 2012.

PNG Air Services Limited

## QUALIFIED OPINION

In my opinion, except for the effects on the matter referred to in the qualification paragraph:

(a) The financial statements of PNG Air Services Limited for the year ended 31 December 2012:

(i) Give a true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and

(ii) The financial statements have been presented in accordance with the Companies Act, International Financial Reporting Standards and other generally accepted accounting practice in PNG.

(b) Proper accounting records have been kept by PNG Air Services Limited as far as appears from my examination of those records; and

(c) I have obtained all other information and explanations required.”

### 65B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 had been completed and the results were being evaluated.

## 66. NATIONAL PETROLEUM COMPANY OF PNG (KROTON) LIMITED (Formerly Kroton No. 2 Limited)

### 66.1 INTRODUCTION

#### 66.1.1 Legislation

National Petroleum Company of PNG (Kroton) Limited was incorporated under the Companies Act and was acquired by IPBC on 24 November 2008.

IPBC was approved as the State’s nominee in the PNG Liquefied Natural Gas (PNG LNG) Project as resolved by NEC in its Meeting No. 36/2008 through Decision No. 223/2008.

#### 66.1.2 Objective of the Company

The objective of National Petroleum Company of PNG (Kroton) Limited is to invest in the PNG LNG Project as PNG State’s nominee holding 16.57% Equity in the Project.

### 66.2 AUDIT OBSERVATIONS

#### 66.2.1 Comments on Financial Statements

My report in accordance with the provisions of the Companies Act on the Company’s financial statements for the year ended 31 December 2010 was issued on 20 December 2013. The report

contained a Qualified Opinion.

#### “BASIS FOR QUALIFIED OPINION

##### Related Party Receivables –US\$ 350,346 (K917,136)

In 2010, the Company paid US\$ 350,346 (K917,136) towards various liabilities on behalf of Gas Project Coordinating Office (GPCO) which was attached with the Department of Treasury. Though the letter from the Acting Chief Executive Officer (a/CEO) of National Petroleum Company of PNG Limited (NPCP) to the Secretary of the Department of Treasury was provided in this regard, no confirmation of acknowledging this liability from the Department of Treasury was made available for my verification.

As such, I was unable to ascertain the appropriateness of taking up this amount as receivable from related party in the financial statements as at 31 December 2010.

##### Investment in PNG LNG Project–US\$ 1,225,491,815 (K2,668,797,042)

An amount of US\$ 1,225,491,815 (K2,668,797,042) was taken up in the financial statements as investment in PNG LNG Project. This investment amount includes both the equity portion (paid by Independent Public Business Corporation on behalf of the PNG Government’s 16.57% interest in the project) and debt portion (paid by PNG Liquefied Natural Gas Global Company LDC, registered in Bahamas as limited duration company, which borrowed US\$ 14.0 billion from a syndicated bank).

##### National Petroleum Company of PNG (Kroton) Limited

However, the Final Investment Decision (FID) agreement signed on 08 December 2009 and the Financial Close signed on 12 March, 2010 by the Joint Venture Partners (JVP) were not made available for my review to determine the accuracy of the equity and the debt portions taken up in the investment of US\$ 1,225,491,815 (K2,668,797,042) in the financial statements as at 31 December 2010.

##### Related Party Payables – US\$ 294,652 (K771,341)

During the year US\$ 294,652 (K771,341) worth of assets were taken over by National Petroleum Company of PNG Limited (NPCP) from Gas Project Coordinating Office (GPCO) which was attached with the Department of Treasury. Though the letter from the Acting Chief Executive Officer (a/CEO) of National Petroleum Company of PNG (NPCP) to the Secretary of the Department of Treasury was provided in this regard, no confirmation acknowledging this receivable from the Department of Treasury was made available for my verification.

As such, I was unable to ascertain the appropriateness of taking up this amount as payable to related party in the financial statements as at 31 December 2010.

#### QUALIFIED OPINION

In my opinion, except for the effect of the matters referred to in the qualification paragraphs above:

(a) The financial statements of National Petroleum Company of PNG (Kroton)Limited for the year ended 31 December 2010:

- (i) Give a true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and
- (ii) The financial statements have been presented in accordance with the Companies Act, International Financial Reporting Standards and other generally accepted accounting practice in PNG;
- (b) Except as noted under other matters paragraph, proper accounting records have been kept by the Company; and
- (c) I have obtained all the information and explanations required.”

## OTHER MATTERS

Without qualifying my opinion, I wish to draw your attention to the following matters which I consider significant.

### Interim Chief Executive Officer

In May, 2010 the NEC in its Decision No(s) 88 and 93/2010 approved the appointment of an interim Acting Chief Executive Officer (a/CEO) to the National Petroleum Company of PNG (Kroton) Limited (NPCP) (formerly Kroton No.2 Limited).

However, the NPCP Board approved the engagement of a Consultancy Firm “Pertusio Capital Partners” to provide the service of an interim CEO of NPCP, which in turn deputed a person to provide his full time service as interim a/CEO and two others as strategic advisors to NPCP at a cost of US\$ 1.463 million/annum (K 3.6 million).

### National Petroleum Company of PNG (Kroton) Limited

Under Section 129(1) and (3) of the Companies Act, only a natural person can be appointed to the position of Director of a Company. By virtue of this provision, the Managing Director’s position should have been held by a natural person and not a Company as done by NPCP Board and approved by the then Minister for Public Enterprises.

Therefore, I was unable to determine the appropriateness of appointing a consultancy firm to the interim Chief Executive Officer’s position with a consultancy fee of US\$ 1.363 million (K3.6 million). Also, I was unable to determine the benefit received by NPCP from this engagement in addition to the non-compliance with the requirements of the Companies Act and the NEC Direction to appoint an Interim CEO.

Management should exercise due care in engaging a consultancy firm for its operational positions and evaluate the cost and benefits of such engagements in future.

### Board Stipend paid to Public Service Employees

Audit noted that one of the Board Members was the Acting Secretary of the then Department of Public Enterprises and another Board Member was a consultant to Department of Treasury and was representing the Secretary for Treasury in other Boards. As per Section 76 of the Public Services (Management) Act without the consent of the Secretary of the Department of Personnel Management, no officer of the Public Service shall accept any office.

I was not provided with the letter of consent from the Secretary, Department of Personnel

Management for these two Public Service officers holding Directorship positions in NPCP and receiving a stipend of US\$ 43,070 (K113,731) each during the year ended 31 December 2010.”

## 66.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2011 had been completed and the results were being evaluated.

The Company had not submitted its financial statements for the years ended 31 December 2012 and 2013 for my inspection and audit despite repeated reminders.

## 67. NCD WATER AND SEWERAGE LIMITED (Trading as Eda Ranu)

### 67.1 INTRODUCTION

#### 67.1.1 Legislation and Objectives of the Company

The NCD Water and Sewerage Limited was incorporated under the Companies Act. The NCDC (Transfer of Assets) Act 1996 provided for the vesting in the Company of the assets required for the supply of treated water and the treatment of sewerage from the NCDC.

#### 67.1.2 Functions of the Company

The principal functions of the Company are to provide the supply of treated water, and the treatment and disposal of sewerage within the NCD.

### 67.2 STATUS OF FINANCIAL STATEMENTS

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

## 68. PNG PORTS CORPORATION LIMITED (Formerly PNG Harbours Limited)

### 68.1 INTRODUCTION

#### 68.1.1 Legislation

The PNG Harbours Limited was incorporated under the Companies Act on 19 June 2002. This initiative was in accordance with the privatisation policy approved by the NEC in 1999. The Company changed its name to PNG Ports Corporation Limited on 7 March 2006.

#### 68.1.2 Functions of the Company

The general functions of PNG Ports Corporation Limited include the regulation, management, control and operation of declared ports; the movement of shipping therein; and the maintenance of light ships, buoys, beacons, moorings, wharves, docks, piers, jetties, landing stages, slips, landing ramps, and platforms.

### 68.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December 2012 had been completed and the results were being evaluated.

The Corporation had not submitted its financial statements for the year ended 31 December 2013 for my inspection and audit.

## 69. PNG POWER LIMITED

### 69.1 INTRODUCTION

#### 69.1.1 Legislation

PNG Power Limited (PPL) was incorporated by the Privatisation Commission under Section 3(1) of the Electricity Commission (Privatisation) Act 2002 as the successor company to the PNG Electricity Commission (ELCOM), a statutory corporation established under the Electricity Industry Act (Chapter 78).

\* The Electricity Commission (Privatisation) Act transferred to PNG Power Limited:

- (i) All of ELCOM's right, title and interest to any and all assets other than those transferred to PNG Dams pursuant to item 1(a) and (c), including, without limitation, the electricity generation assets located in the areas of Sirinumu Dam and Yonki Dam;
- (ii) All of ELCOM's liabilities other than those transferred to PNG Dams pursuant to item 2(b); and
- (iii) All water use permits held by ELCOM and referred to in Section 7(1) of the Act.

\* Transferred all of the employees of ELCOM to the employment of PNG Power Limited;

\* Declared PNG Power Limited as a "Specified Entity" for the purposes of Section 8 of the Act;

\* In accordance with the privatisation policy of the Privatisation Commission, all the issued shares of PNG Power were transferred to the Privatisation Commission (and deemed transferred to the successor to the Privatisation Commission, the IPBC of PNG as the trustee of the General Business Trust under the IPBC of PNG Act; and

\* The consideration for the transfers referred to in items 1 and 2 was nil.

#### 69.1.2 Functions of the Company

The functions of the Company are to plan and co-ordinate the supply of electricity throughout the country; to generate, transmit, distribute, reticulate and sell electricity; and to provide to the public bodies and the State, services related to sale, consumption and use of electricity.

### 69.2 AUDIT OBSERVATIONS

#### 69.2.1 Comments on Financial Statements

My reports in accordance with the provisions of the Companies Act on the financial statements of the Company for the years ended 31 December 2011 and 2012 were issued on 31 March 2014 and 23 June 2014 respectively. The reports contained similar basis for Disclaimer of Opinion, hence only the 2012 report is reproduced as follows.

#### "BASIS FOR A DISCLAIMER OF OPINION

##### Opening Balances



My report for the year ended 31 December 2011 was a disclaimer of opinion. I was not able to satisfy myself as to the accuracy and completeness of the opening balances of capital work in progress, property, plant and equipment, trade receivables, trade creditors, cash and cash equivalents, inventory, other payables, other receivables, employee entitlements and tax balances. Since these opening balances entered into the determination of the results of operations and cash flows of the Company in 2012, I was unable to determine whether adjustments to the results of operations and cash flows might have been necessary for the year ended 31 December 2012.

#### Capital Work-In-Progress and Associated Depreciation Charges

In Note 4 to the financial statements, the Company's 'Capital Work-in-Progress' was disclosed as K203 million, which includes K94 million cost incurred and capitalised during the year. I was unable to confirm the accuracy and completeness of this carrying value for the following reasons:

- \* I was not provided with complete documentation in respect of the cost of K94 million incurred and capitalised during the year 2012;
- \* In 2012, Capital Work-In-Progress of K190.1 million was transferred to property, plant and equipment and depreciated. My review over management of capital projects revealed number of control weaknesses including delay in finalisation of Project Completion Forms, ineffective monitoring and approval of Project Variation Forms and lack of physical inspection of projects. Consequently, I could not ascertain the date from which these assets became available for use and the date from which these assets should have been classified as property, plant and equipment and appropriately depreciated. Had all the completed projects been adequately reviewed, the results for the year would have been reduced by the related depreciation charge. Since the completed projects were not identified in full, capitalised and depreciated, as appropriate, I was unable to determine the impact of the related depreciation charge on the results for the year ended 31 December 2012 and the financial position as at the date; and
- \* I was not provided with the stage of completion of the entire capital work-in-progress account including the breakup of costs incurred during the year. Had all projects been adequately reviewed, the results for the year may have been reduced by the related impairment. Because project status was not assessed in full and written down to recoverable amount as appropriate, I was unable to determine the impact of this issue on the results for the year ended 31 December 2012 and the financial position as at that date. Similarly, the prior year audits identified such issues, therefore, there will be a cumulative impact of such errors.

Accordingly, I was unable to confirm the accuracy, completeness, existence and valuation of the capital work-in-progress balance as disclosed in Note 4 of the 2012 financial statements.

#### Property, Plant and Equipment and Associated Depreciation Charge

No assessment of the recoverable amount of Property, Plant and Equipment has been conducted by PPL in accordance with International Accounting Standard 16 "Property, Plant and Equipment". Accordingly, I was unable to determine whether any adjustment relating to the carrying value of Property, Plant and Equipment was necessary in the financial statements for the year ended 31 December 2012.

In accordance with International Accounting Standard 16, PPL has adopted the revaluation model for Property, Plant and Equipment. This means that the valuation for property, plant and equipment should be kept sufficiently up to date so that the carrying amount in the general ledger does not differ materially from the fair value. The last revaluation of property, plant and equipment

was performed in 2006. I did not obtain sufficient appropriate audit evidence to confirm that the current valuation, as presented in the 2012 financial statements is not materially misstated nor regarding compliance of the basis of preparation with International Accounting Standard 16 valuation methodology.

Therefore, I was unable to confirm the accuracy, completeness, existence and valuation of property, plant and equipment balance as disclosed in Note 4 of the 2012 financial statements.

## Inventories

The following matters came to my attention which collectively affect or have the potential to affect the existence, accuracy, completeness and valuation of the carrying amount of PPL's inventory as disclosed in the 2012 financial statements:

- \* I was not provided with complete documentation to enable me to verify inventory purchases, inventory utilised or issued to production and inventory balance of K32.8 million as disclosed to exist as at 31 December 2012 in Note 8 of the financial statements;
- \* Costs directly attributable to bringing inventories to their present location and condition (which includes freight, insurance, and handling charges) were not included as part of inventory cost and were instead incorrectly charged directly to the profit and loss account. I was not provided with sufficient documentation to allow me to evaluate the impact on the inventory amounts recorded as at 31 December 2012 or the impact on the results of operations for the year ended on that date;
- \* PPL has not made an assessment of the net realisable value of its inventories as at 31 December 2012. Accordingly, I was unable to determine whether any adjustments relating to the lower of cost or net realisable value of inventories were necessary in the financial statements for the year ended; and
- \* I was unable to obtain calculations supporting the provision for stock obsolescence amounting to K2.12 million as at 31 December 2012.

Consequently, I was unable to confirm the accuracy, existence, completeness and valuation of the inventory balance as disclosed in Note 8 of the 2012 financial statements.

## Trade Receivable and Electricity Income

I have identified a number of matters in relation to the internal processes and procedures on PPL's electricity revenue system which impacts on the accuracy, existence and completeness of the recorded electricity revenue and related receivables including the following:

- \* Electricity revenue recorded in the Gentrack Billing System was K20.2 million more than that recorded in the general ledger. The total electricity revenue in the Gentrack Billing System was K738.8 million and the electricity revenue in the general ledger was K718.6 million for the 2012 financial year. I could not obtain sufficient appropriate documentation to confirm the accuracy and existence of electricity revenue recorded in the general ledger;
- \* Easipay income recorded in the Easipay POS Billing System was K3.65 million more than that recorded in the general ledger. I did not obtain sufficient appropriate documentation to confirm the accuracy, existence or completeness of Easipay income recorded in the general ledger;
- \* A difference of K7.68 million was noted between the Gentrack accounts receivable sub-ledger and the general ledger as at 31 December 2012. The electricity debtors in the general ledger were K117.48 million compared to the Gentrack Sub-Ledger of K125.16 million. Due to the above adjustments that had direct impact on the electricity revenue, I did not obtain sufficient appropriate documentation to confirm the accuracy, existence or completeness of electricity revenue and receivables for the year ended 31 December 2012;

- \* Provision for impairment losses against trade receivables amounted to K25.24 million was made at 31 December 2012. I was not provided with relevant documentation to verify the management's estimate;
- \* Unearned income in relation to Easipay Sales amounted to K1.76 million as at 31 December 2012. I was not provided with sufficient and appropriate documentation to substantiate the accuracy and completeness of the unearned income for Easipay sales; and
- \* A sales register could not be obtained in order to cross check the existence of revenue recorded against the Manual Meter Readings Report.

I was unable to perform alternative procedures to quantify the impact of these matters or adjustments required to the revenue account balances. Consequently, I was unable to confirm the accuracy, existence and completeness of electricity and other revenue and the related receivables as disclosed in the 2012 financial statements.

#### Cash and Cash Equivalents and Bank Overdraft

As at 31 December 2012 PPL's Main Bank Account (Account Number: 12393) had an overdraft position of K16.5 million. I was unable to attain supporting documentation for K26.7 million of reconciling items between the general ledger balance and cash at bank.

Accordingly, I was unable to confirm the existence, accuracy and completeness of cash and cash equivalents as disclosed in Note 6 of the 2012 financial statements.

#### Other Receivables

Included in other receivables in of the 2012 financial statements, is an amount of K32.8 million relating to "Prepaid bank drafts" of which K7.5 million was paid during 2011. This account serves as a clearing account to record overseas payments to suppliers; however, Management has been unable to match cash payments against creditor balances. I have not been provided with appropriate and sufficient supporting documents to verify the accuracy, existence and completeness of these items.

Therefore, I was unable to confirm the accuracy and completeness of the 'Other Receivables' account balance as disclosed in the 2012 financial statements and their consequential impacts on the operating result for the year.

#### Trade Payables and Operating Expenses

The following matters came to my attention, which have the potential to affect the accuracy, existence and completeness of trade creditors and other expenses as disclosed in the 2012 financial statements:

- \* I was not able to obtain reconciliation between the general ledger and the subsidiary ledger to confirm the accuracy, existence and completeness of trade payables. The information provided by PPL lacks sufficient and appropriate details that would enable me to identify the creditors and the transaction details as at 31 December 2012. As a result, I was not able to perform the necessary audit procedures in order for me to verify the accuracy, existence and completeness of trade payables; and
- \* Purchase cut off testing could not be performed as no supporting documents or transactions listings could be provided post 31 December 2012.

Accordingly, I was unable to confirm the accuracy, completeness and existence of trade payables as at 31 December 2012 and purchases and operating expenses for the 2012 financial year.

## Consumer Advances and Other Creditors

### Customer Advances

Included in trade and other payables in Note 9 of the 2012 financial statements, is an account balance of K27.5 million relating to "Customer Advances". This represents deposits from various customers for electricity services yet to be performed. The Company is obligated to repay customer advance over five year period. I was not able to obtain sufficient details to enable me to identify the balance outstanding for each customer.

As a result, I was not able to perform the necessary audit procedures in order for me to verify the accuracy, existence and completeness of consumer advances.

### Other Payables

\* The Consumer Security Deposits account has a balance of K6.3 million as at 31 December 2012. I was not provided with appropriate evidence nor were I able to perform alternative procedures to evaluate and confirm the accuracy and completeness of the consumer security deposits; and

\* Included in Other Payables are Government Grants for Rural Electrification Project of K66.9 million, of which K30.2 million relates to completed projects. The current accounting treatment is not in accordance with the International Accounting Standard 20, "Accounting for Governments and Disclosures of Government Assistance" which requires grant income to be recognised on a systematic basis over the useful life of the asset to which the grant relates.

Further, I noted that in 2006, the Company received K65 million from IPBC for funding of various Rural Electrification Projects which was incorrectly recognised as equity injection as opposed to being progressively recognised as revenue. I have been unable to perform alternative procedures to quantify the potential impact of these adjustments. Accordingly, I was unable to confirm the accuracy and completeness of government grants.

As such, I did not obtain sufficient appropriate evidence to confirm the accuracy, existence and completeness of these account balances at 31 December 2012.

### External Borrowings

The Company complied with its financial debt covenants, however have not complied with its non-financial covenants (i.e. lodging of income tax returns) during the year ended 31 December 2012. Accordingly, at 31 December 2012, the Company does not have an unconditional right to defer repayment of debt amount totalling K282.8 million which are classified as non-current borrowings on the balance sheet date. Therefore, current external borrowings should have been K307.4 million as at 31 December 2012.

### Employee Entitlements

Note 10 to the 2012 financial statements discloses PPL's obligation to its employees under the employee contracts and the 2009 Enterprise Agreement entered into between PPL and its employees. During the course of my audit, the following matters came to my attention:

\* International Accounting Standard 19, "Employee Benefits" requires long term benefits to be measured at present value of expected payments at exit. PPL's obligation to employees for long service leave and ex-gratia entitlements have been measured on an undiscounted basis, based on current pay rates during both the 2010 and 2011 financial years. No information has been provided to allow me to quantify the effect of the potential misstatement of non-compliance with the standard.

I have been unable to perform alternative procedures to quantify the potential impact of these adjustments. Accordingly, I was unable to confirm the accuracy and completeness of employee entitlement balances as presented in Note 10 to the 2012 financial statements.

### Income Tax Balances

The following matters came to my attention, which individually and collectively, affect or have the potential to affect the accuracy and completeness of the corporate income tax charge and balances as disclosed in the 2012 financial statements:

\* Included in deferred tax asset of K112.8 million are expected benefits relating to the recovery of future tax losses of K89.6 million. I doubt if the recovery of these losses is probable and PPL has not provided me with evidence to support compliance with International Accounting Standard 12, "Income Taxes". As a result, deferred income tax assets and reserves are potentially overstated by K89.6 million. As per International Accounting Standard 12, "Income Taxes" a deferred tax asset shall be carried forward to the extent that it is probable that future taxable income profit will be available against which the tax losses can be utilised;

\* I was not provided with tax returns for tax years 2009 to 2011 or IRC's assessments for these tax years. Due to lack of information provided, I was unable to quantify the impact or potential impact on the financial statements;

\* Tax depreciation amounts for 2012 were not adequately reconciled with underlying fixed asset registers based on approved tax rates; and

\* I was unable to reconcile the closing provision for income tax given the uncertainty in prior periods and movements in deferred balances.

The limitations discussed in the preceding paragraphs have the potential to affect the accuracy of the reported profit for the year and consequently this has potential to affect the accuracy of the income tax balances.

Therefore, I was unable to confirm the accuracy, completeness and valuation of income tax charge and related balances as disclosed in the 2012 financial statements. Furthermore, I was unable to quantify the impact or potential impact on the profit for the year.

### Presentation and disclosure of financial statements

The 2012 financial statements as presented do not contain all the disclosures required by the International Financial Reporting Standards (IFRS). Accordingly, I was unable to attest to statement of compliance as set out in Note 1(A) of the financial statements.

### Going Concern

Note 1(A)(i) to the financial statements indicates that PPL has net current liabilities of K71.2 million as at 31 December 2012 (2011:K361.8 million). I was unable to assess the financial position of PPL

as at 31 December 2012 due to significant matters described in the preceding paragraphs above. Consequently, I was unable to determine whether PPL will continue as a going concern. Should the Company be unable to continue as a going concern, it is unlikely they will be able to realise their assets and extinguish their liabilities in the normal course of business and at amounts stated in the financial statements.

## DISCLAIMER OF OPINION

Due to the significance of the matters described in the Basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence and accordingly, I was unable to express an opinion on the financial statements of PNG Power Limited as at 31 December 2012 and of its financial performance and its cash flows for the year then ended:

- (a) I was unable to form an opinion as to whether proper accounting records have been kept by the Company, so far as appears from my examination of those records; and
- (b) With the exception of the matters described above, I have obtained all the information and explanations I have required.”

### 69.2.2 Audit Observations Reported to the Minister

My reports to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Company for the years ended 31 December 2011 and 2012 were issued on 31 March 2014 and 23 June 2014 respectively.

The reports contained similar observations, hence only the 2012 observations are reproduced as follows.

#### Purchase and Payable Processes and Systems

I noted a number of control deficiencies in the design and implementation of the procurement and payment processes. These included:

- \* Cash disbursements potentially not spent in the most efficient manner. For example, limited cost benefit analysis performed between capital versus maintenance expenditure, limited use of business cases by operations to support significant items of expenditure, inadequate tracking of actual project expenditure against original forecast;
- \* Purchase orders/invoices being approved subsequent to goods/services being supplied;
- \* Circumstances where there has been no evidence of payment approval;
- \* Significant goods received not invoiced, indicating the three-way matching process is not operating effectively. At 31 December 2012 the goods received not invoiced account had a balance of K29,000,000 (K29m). This indicates that the three-way matching process not working effectively, that is, goods are not been matched at receipt to clear the goods received not invoiced account and create a creditor against which the account can be paid;
- \* Goods received notes are not issued in a timely manner; and
- \* No evidence of review of creditors' reconciliation. I noted that documentation supporting the reconciliation was insufficient to allow the preparer and reviewer to effectively conduct the reconciliation and identify items requiring attention.

The above control deficiencies relate to design and implementation of the procurement and payment processes give rise to inefficient use of capital and wastage, inability and difficulty tracking the status of capital projects and project overruns and unauthorised purchases. These also increase risks of fraudulent activities and errors.

## Revenue Process and Systems

I have been unable to validate the control environment surrounding revenue recognition due to an incomplete 'audit trail'. The following control deficiencies were noted:

- \* Monthly reconciliation of electricity sales per Suprima, Gentrack and Oracle is not performed. I noted that the reconciliation of electricity sales between the three systems was not performed during January to November 2012. I also noted that the year-end reconciliation between Gentrack and Oracle was not effectively performed;
- \* Monthly reconciliation of electricity debtors is not performed regularly. From the sample months selected, I noted that reconciliations for electricity debtors for the months of June and September 2012 were not completed;
- \* Review and changes to tariff as per Gentrack and Suprima not properly documented: Due to insufficient documentation, I was not able to ascertain whether the tariff changes to Suprima and Gentrack at the beginning of the year were appropriately implemented;
- \* Review of validation report for read meters not properly documented: Due to insufficient documentation, I was unable to ascertain whether the review was performed to ensure that manual meter readings are input correctly into Gentrack and that sales recorded are accurate. The validation report, which is utilised by the data input clerks to check whether the sales per bill-book are within accepted parameters is not reviewed by the Centre Supervisors; and
- \* Review of exception reports on unread meters not properly documented: Due to insufficient documentation, I was unable to ascertain whether a review was performed to ensure that sales are complete and accurate on a monthly basis.

I brought these control deficiencies relating to revenue processes and systems to the attention of Management and their response was as follows: "Noted that more training of resources is required with evolving revenue and growth of organisation."

## Information Technology Control Environment

I noted significant weaknesses in the IT control environment. Specifically I noted weaknesses with respect to systems access, systems change management, reporting capability to support account reconciliations and the broader control environment and ongoing system monitoring. These are detailed below:

### Follow up of 2011 Findings

Significant control weaknesses identified and previously reported in the 2011 Section 8(2) report remains unresolved. I understand from IT Management that remediation plans to address the issues are in progress.

### Testing over 2012 IT Activities in Oracle

- \* There is significant reliance on manual controls (e.g. manual reconciliations) to identify errors in financial information. The lack of effective automated controls increases the risk of users being able to by-pass manual approval process which may lead to fraud and/or operational losses to PPL;

- \* Inappropriate Oracle access has been granted to employees. For example, inspection of the Oracle access list as of August 2013 identified a Budget Officer having General Ledger super user (granted in March 2013) and System Administrator access (granted in December 2012);

- \* Oracle system user list as of August 2012 identified at least 35 accounts belonging to terminated employees which remained enabled, including the account of the former ICT Manager with super user access in Cash, General Ledger, Project Costing and Purchasing functions;
- \* System administrator access in Oracle allows a user to perform end-to-end functions. Weak access controls increases the risk of unauthorised users performing fraudulent activities leading to financial losses. The risk is further increased by the absence of review of log activities; and
- \* There is no regular review of user access to ensure that the access assigned to users is appropriate for the users' current business role and that terminated user accounts are revoked in a timely manner.

I recommended Management to conduct a full review of super user accounts (modules and system administration) and revoke inappropriate privileges granted to business users. Further, I recommended that Management implement formal guidelines to establish the roles requiring super user access. These guidelines should be used when creating or modifying system access.

I brought to the attention of Management that in the absence of regular reviews over user access increases the risk of inappropriate user access to systems going undetected and that access being misused by terminated, or other, staff members.

I also recommended that PNG Power implement a regular process for Business Managers to review the currency and appropriateness (to each employee's role within the organisation) of user access to the systems. The Management was requested to revoke the access of terminated users and ensure any inappropriate access assigned to current employees is adjusted to what is deemed appropriate for their role.

#### Payroll Master-file Restriction and Segregation of Duties

The annual salary, benefits and bank details of the employees must be updated by the Human Resource Information Management or payroll team. In view of that, there is no proper segregation of duties between the Human Resource and payroll teams.

In addition, I noted no control monitoring changes to the payroll master-file. For example, exception reports showing changes to the payroll master file are not reviewed and approved for each of the fortnightly pay-runs.

I noted that an audit trail can be extracted from the system showing the users that have made changes to the system; however, this is only performed when a query is raised to the Payroll Manager.

#### Quality of General Ledger Reconciliations

The reconciliations are prepared on a regular basis and that there is an overriding framework to manage the reconciliation process. However, I identified a significant opportunity to improve quality. The identified weaknesses include the level of skepticism applied for account reconciliations (preparer and reviewer), limited knowledge and understanding of operational processes by reconciliation preparer's/reviewer's, limited support provided for reconciling items and aging of reconciling items. The other key matters noted over the reconciliation process include:

#### Ineffectiveness of Review Function of General Ledger Reconciliations and Schedules



I identified a number of reconciliations and schedules which were signed off by the preparer and reviewer but contained errors and anomalies, which was not identified during the review process. These findings indicate the review process is not effective and increases the risk of errors and irregularities not being detected and resolved. This increases risk of material misstatement.

### Conservative Accruals/Provisions

A number of errors were noted in respect to the account balances that represented overly conservative accruals or provisions. Management have represented that these positions were adopted to counter the potential risk of errors from account reconciliations. Potential overstatements were identified in the following accounts: trade receivables impairment provision, stock loss provision, accrued creditors, employee bonus provision (but offset against CPI back payment understatement, Long Service Leave understatement) and legal claims provision.

The impact of the above issues includes:

- \* Reconciliations contain material errors that are not identified;
- \* Increased use of 'general provisions' by management to counter the risk of potential reconciliation errors;
- \* Reconciliations are not supported by adequate documentation/calculations; and
- \* Long outstanding reconciling items that have not been actioned.

### Asset and Project Management Process

Management have commenced implementing improvements in this area, however there remains significant opportunity to improve processes associated with asset impairment monitoring, asset stock takes, fair value assessments, useful life assessments, clarifying ownership of Rural Electrification Assets and Capital WIP management.

The significant matters that have been highlighted include: Capital Project Management  
Capital Project Management is a critical process for PNG Power. I noted a number of deficiencies as summarised below:

#### \* Delay in finalisation of Project completion Forms

PNG Power Limited is currently behind in their submission of completion notice forms for completed projects. This increases the risk that projects are not closed out and subsequently capitalised and depreciated from the date the assets are held ready for use.

#### \* Ineffective Monitoring and Approval of Project Variation Forms

Oracle system is not able to flag variations between the actual and budgets for each project. Due to the large number of projects carried out each year, the project finance team is unable to manually monitor, on a timely basis, the costs incurred and the duration by each project against the approved budget.

#### \* Lack of Physical Inspection of Projects Assets

No physical inspection of project assets is performed. This creates the risks of misuse of project related assets and/or projects that the completion status of projects is not physically verified by PPL staff independent of the project team.

#### \* No Internal Analysis of 5% Overhead for Projects

I noted that a 5% general allowance is allocated into the cost of the asset to cover for overheads. The 5% is allocated as a standard to all project work orders and that there is no specific internal analysis for the allocation of this overhead for each projects.

No Impairment Testing has been performed

PNG Power Limited has not identified its CGU's nor performed impairment testing (recoverable amount) for 31 December 2012. Some of the Company's hydro and thermal plants are in excess of 30 years old and are approaching the end of their useful economic and technical life.

The Company has not performed any recent impairment testing on any of its hydro or thermal plants in order to determine whether or not the future expected discounted net income is less than the carrying value of these assets.

I recommended that annual impairment testing should be performed on each hydro and thermal plant in order to determine whether or not the future expected discounted net income ("value in use") is less than the carrying value of these assets.

Ownership of Project Assets

PNG Power Limited is currently in negotiation with IPBC over the ownership of the Rural Electrification (RE) assets completed. The assets have been booked by PNG Power Limited Fixed Asset Stock-takes

PNG Power Limited identified a number of stock write-offs during an asset stock-take in December 2012. These were not processed in the financial statements at 31 December 2012.

Asset Useful Lives Review

PNG Power Limited has not formally undertaken a full review of useful lives as at 31 December 2012 as required by IAS 16. However, I noted that a more formal approach is being considered by PNG Power Limited. Further, I noted that some high level analysis has been undertaken and useful lives already adjusted for motor vehicles and computer equipment. Useful lives for certain assets may not be appropriate. As such depreciation may be materially misstated.

Unable to Assess the Accuracy of Property, Plant and Equipment

In 2011 and in prior years audit reports, there was an audit qualification in respect of capitalised Project WIP. To this extent I was unable to confirm the accuracy of the property, plant and equipment (PPE) cost as at 1 January 2012 and as at 31 December 2012. This consequentially has impacted the accuracy of depreciation charge for the year, which has further impacted the accuracy of results for the year and carrying value of PPE at the year end.

I recommended that a review should be performed on Projects WIP from the date that each project commenced so as to identify the date that each asset was available for use. Once this review has been completed, assets should be transferred from Project WIP to PPE from the date they became available for use.

Reconciliation and Cash and Bank Balance

I noted the following matters over the bank reconciliation process:

- \* A significant number of reconciling items are more than 12 months old. Unreconciled bank deposits, credits and debits existed. I was unable to obtain supporting documents for aged reconciling items. The balance of this account as at 31 December 2012 is debit of K10,176,421;
- \* BSP Bank Account 1001995131 (Board Secretariat) amounting to K999,850 is not recognised as cash at bank but charged against sundry creditors when the account was established in 2011. No bank reconciliation was prepared;
- \* Bank reconciliations are manually prepared. Unnecessary time and effort may be used to prepare bank reconciliations monthly. Oracle has a built in system where bank reconciliations are automatically prepared if the accounting system is linked to online banking; and
- \* The balance is K44,292,575 as at 31 December 2012 compared to the expected nil balance for a clearing account. Further, reconciling items were dated back to August 2009.

## Inventory

I noted the following key matters with respect to inventories:

- \* There were unexplained differences of K235,852 between the inventory sub-ledger and Oracle General Ledger as at 31 December 2012 in respect of stores stock (Account No. 12460); and
- \* Supporting documents or transaction listings could not be provided in order to verify accuracy, completeness and existence of inventory.

## Tax Workings could not be substantiated

In 2011 and prior years audit reports, there was an audit disclaimer in respect of completeness and accuracy of the income tax balances. To the extent that these balances are brought forward and included in 2011 financial statements, this impacts on the accuracy and completeness of the tax balances as at 31 December 2011 and tax expense charged for the year.

Due to information not provided in respect of PPE, Projects WIP, revenue, inventory and accounts payable, I have been unable to substantiate the tax workings provided. The following specific matters were noted:

## Tax Returns

PNG Power Limited has not lodged its corporate tax returns for 2009, 2010, 2011 and 2012. This is a technical non-financial debt covenant breach.

## Income Tax Expense

Tax Entries not in general ledger: PNG Power Limited has historically not had an income tax expense account in the general ledger. Instead, it has historically been recorded in retained earnings. Whilst appreciating that PNG Power Limited have carried forward losses, there is a requirement to separately record current tax expense and deferred tax expense.

## Provision for Income Tax

The provision for income tax balance is reliant on the validation of carry forward tax losses. Until this is validated then there remains a high risk to PNG Power Limited that the provision for income tax and income tax expense would be materially misstated.

## Deferred Tax Assets

- \* Accuracy of Losses – I understand Deloitte has advised that all carried forward tax losses had been utilised in 2008. Given the quantum of tax losses recognised as a deferred tax (K89.6m) I recommended that this adjustment is posted by Management in the 2012 financial statements;
- \* Provisions for Landowner Benefits –PNG Power enter into agreements to compensate landowners for the loss of land due to flooding caused by dam construction. I noted that this amount is not provisional in nature and is a genuine liability of PPL. As such, PPL should claim an immediate deduction for these expenses and no deferred tax asset should be recognised as at 31 December 2012. The net deferred tax effect of this provision is K1.64m;
- \* Accrued Sundry Creditors –The accrued sundry creditors account has not been disclosed as a deferred tax asset. The balance as per General Ledger at 31 December 2012 was K34.6m which is K10.6 tax affected;
  
- \* Capital Stores –Capital stores represent assets to be used over a 2–5 year period. As such, these assets are deductible on a usage basis (i.e. as they are used) and are not deductible immediately. Therefore, tax and accounting treatment should be aligned. I noted that a deferred tax liability of K0.7m with respect to these assets (deduction claimed on purchase) has been recognised at 31 December 2012;
- \* Tax Fixed Assets Register –At the time of audit the Tax Fixed Asset Register could not be located. It is also recommended that PPL consider aligning the accounting and tax depreciation periods other than those items eligible for accelerated depreciation discussed below;
- \* Assets of value less than K1,500 expensed – Assets costing less than K1,500 are immediately expensed to the statement of comprehensive income. For income tax purposes, some of these assets should be capitalised to the Fixed Assets Register. As such, PNG Power may be required to recognise a deferred tax asset as at 31 December 2012 with respect to assets that should be capitalised for income tax purposes. The value of assets directly expensed is K1.3m;
- \* Accelerated Depreciation –It is understood that accelerated claims relate to the Hydro Dam infrastructure assets. It is recommended that PNG Power Limited formally document a tax position paper of these items to assist in supporting the current accelerated depreciation claim;
- \* Depreciation –There is a depreciation variance of K2.7 million between the trial balance and the summarised version of the fixed asset register which has been used in PNG Power Limited’s tax computation. At the time of my visit, this variance could not be explained; and
- \* Prepaid Insurance –Prepaid insurance general ledger balance is K5.5m whereas tax calculations only recognise a deferred tax liability with respect to K1.1m. There is a variance of K4.3m, which needs to be resolved by PPL.

## Skills, Culture and Work Ethic

I have noted that the current accounting processes and outcomes are significantly impacted by the level of skills, culture and work ethic of the staff. There are significant opportunities to improve the quality and productivity of accounting and other key business processes.

The Management was requested to take adequate measures to address the capacity issues and that will consequently improve the operational efficiency.

## 69.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the

accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 was in progress.

## 70. POST PNG LIMITED

### 70.1 INTRODUCTION

#### 70.1.1 Legislation

Post PNG Limited was incorporated on 24 December 1996 under the Companies Act. This Company was formed following the NEC Decision No. 18/96 of 17 April, 1996 to corporatise the Post and Telecommunications Corporation (PTC) and separate it into three entities, namely: Telikom PNG, Post PNG and PNG Telecommunication Authority (PANGTEL) now known as National Information and Communications Technology Authority (NICTA) as established by Section 8 of the National Information and Communications Act.

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the PTC relating to Postal Services were, as per the allocation statement approved by the Minister for Communications, transferred on 31 December 1996 at net book value to Post PNG Limited. Post PNG Limited is a 100% state-owned Company and it commenced trading on 1 January, 1997.

#### 70.1.2 Objectives of the Company

The primary objectives of the Company are to:

- \* Provide domestic and international postal services to meet the reasonable needs of the people, Government, non-governmental organisations and business enterprises of PNG;
- \* Manufacture and market postage stamps, philatelic products and other products for use in connection with services provided by Post PNG;
- \* Provide money transfer services within the Independent State of PNG and between PNG and other places;
- \* Engage in research relating to postal products and activities;
- \* Provide packet and parcel carrying services;
- \* Provide courier and freight services;
- \* Provide mail house, documents exchange and contract mail management services;
- \* Carry on any business or activity that is related, incidental, ancillary or complementary to the provision of domestic and international postal services;
- \* Provide fund transfer services, act as agent on behalf of other entities, bodies and organisations in relation to banking arrangements and in the collection of premium rates, licence fees, other like services and operate a savings bank; and
- \* Perform functions relating to the provision of postal services in a manner consistent with PNG's obligations under any convention.

### 70.2 AUDIT OBSERVATIONS

#### 70.2.1 Comments on Financial Statements

In accordance with the provisions of the Companies Act my report for the year ended 31 December 2013 was issued on 16 June, 2014. The report did not contain any qualification, but had an Emphasis of Matter.

## “EMPHASIS OF MATTER

I draw attention to the financial statements which states that the Company’s current liabilities exceed its current assets by K11.9 million (2012: K36.8 million). This, along with the other matters as described in Note 1, indicates the existence of a material uncertainty which may cast doubt about the ability of the Company to continue as a going concern and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial statements. My opinion is not qualified in respect of this matter.”

## 70.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2013 was issued on 16 June 2014. The report contained the following comments.

## OTHER MATTERS

### Bank Reconciliation

The Company’s Bank Reconciliation contains un-presented cheques dating back for more than six months. Carrying of un-presented cheques for long time will not give accurate bank balance at the end of the year. I further noted that un-identified/unallocated bank debits and credits remained outstanding at the end of the year:

- \* Unidentified Bank Credits of K1,855,415; and
- \* Unidentified Bank Debits of K1,386,723.

Although most of the amounts were subsequently identified and cleared in January 2014, I have still recommended that Management should investigate any reconciling items timely and adjust the necessary accounts promptly. Management responded as follows: “Unpresented cheques are result of payments not being presented to the bank by our suppliers. We have maintained our write process within 12 months in line with the banks validity period. However, we have few that have gone past 12 months. Our bank reconciliation is done on a daily basis. Clearing un-identified items may take 3-4 days to identify and clear as descriptions on the bank statement may not be sufficient.”

### Mobile SMK & SMK GL Accounts

I have noted that various accounts maintained for Mobile Salim Moni Kwik (MSMK) in the General Ledger were not properly maintained and cleared on a timely basis. Further, it was noted that SMK creditors account exceeded more than K1 million which remained outstanding for more than 90 days which is not possible, given that customers take their money within days of being transmitted. I have recommended that reconciliation and clearance should be done on a timely manner and constantly reviewed by superiors to ensure that proper accounting systems and processes are in place.

Management responded as follows: "We agree that a review of the accounting process need to be looked at. Given the complexity of the product, we will engage a third party to review the process to ensure it is easy to reconcile. Going forward we will ensure reconciliation is completed daily."

## Year End Stock-take

I have noted that during the year end stock-take, only two people were allocated to conduct the Head Office stock-take. A stock-take that would have taken couple of days to complete took more than two weeks to finish. I have recommended that in future, Management should properly plan and allocate adequate number of staff to carry out a reliable and timely stock- take. Management agreed to my recommendation.

## Other Internal Control Weaknesses

Other weaknesses noted during the course of my audits were:

- \* Lack of timely reconciliations and clearance of various general ledger accounts;
- \* Customs duty clearing account totaled K740,638 need to be investigated and/or adjusted as majority of the transactions were dated back as 2011 and 2012;
- \* The Company do not have a formal tender procedure in place; and
- \* Lack of control over retail business – Post Offices.

## 71. TELIKOM (PNG) LIMITED

### 71.1 INTRODUCTION

#### 71.1.1 Legislation

Telikom (PNG) Limited was incorporated under the Companies Act. This Company was formed following the NEC Decision No. 18/96 of 17 April, 1996 to corporatise the Post and Telecommunications Corporation (PTC) and to separate it into three entities namely: Telikom (PNG) Limited, Post PNG Limited and PNG Telecommunication Authority (PANGTEL).

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the PTC relating to Telecommunication Services were transferred on 31 December 1996 at the net book value to Telikom (PNG) Limited as per the allocation statement approved by the Minister for Communications. Telikom (PNG) Limited is a 100% state owned Company and it commenced trading on 1 January 1997.

#### 71.1.2 Objectives of the Company

The primary objectives of the Company are to:

- \* Be the successor Company to the Telikom Divisions of PTC within the meaning of and for the purposes of the Telikom (PNG) Limited Act;
- \* Supply telecommunication services within PNG and between PNG and other places;
- \* Carry on any business or activity relating to telecommunications either inside or outside PNG;
- \* Publish telecommunications directories, and to supply directory information service;
- \* Supply, install and maintain customer equipment and customer lines;
- \* Develop, manufacture, market and supply facilities and software;
- \* Supply value added services;
- \* Utilise its network, installations and facilities for purposes other than telecommunications, to the

extent that such network installations and facilities are not fully utilised in the supply of telecommunications;

\* Carry on any business incidental to telecommunication;

\* Unless otherwise advised to the contrary by the Minister acting in accordance with a directive of the NEC to:

? Act as an adviser to the Government of PNG on matters relating to telecommunication activities in PNG;

? Represent PNG as a member of, and actively participate, in international bodies concerned with the administration of telecommunication services;

? Enter into international agreement relating to telecommunication activities; and

? Perform functions relating to the provision of telecommunication services in a way consistent with PNG's obligations under any convention.

\* Exercise such powers to negotiate, prepare, execute and perform any contracts or management arrangements of the State as may be delegated to it or conferred on it.

### 71.1.3 Subsidiaries of the Company

The subsidiaries of Telikom (PNG) Limited are Kalang Advertising Limited and PNG Directories Limited. Comments in relation to these subsidiaries are contained in paragraphs 71A and 71B of this Report.

## 71.2 AUDIT OBSERVATIONS

### 71.2.1 Comments on Financial Statements

My report in accordance with the provisions of the Companies Act on the financial statements of the Company for the year ended 31 December 2012 was issued on 29 April 2014. The report contained a Qualified Opinion.

#### “BASIS FOR QUALIFIED OPINION

##### Recoverability of BeMobile Receivable

The financial statements reported that BeMobile owes the Group K93,803,079 at 31 December 2012 (2011: K75,283,597), and the Company K93,703,226 at that date (2011: K75,238,194). I was unable to substantiate the receivable as I was not able to obtain a confirmation from BeMobile or perform alternative audit procedures in relation to the existence of the amount receivable. Consequently, I was unable to determine whether any adjustments relating to the carrying amount of this receivable, or provisions raised in respect of this receivable, were necessary in the financial statements for the year ended 31 December 2012 or the year ended 31 December 2011.

#### QUALIFIED OPINION

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

(a) The consolidated financial statements of Telikom PNG Limited are properly drawn up in accordance with the provisions of the Companies Act and comply with generally accepted accounting practice and give a true and fair view of the financial position of the Consolidated Entity as at 31 December 2012, and of its financial performance and its cash flows for the year then ended;



- (b) Proper accounting records have been kept by the Group as far as it appears from my examination of those records; and  
(c) I have obtained all the information and explanations I required for the purposes of my audit.

## EMPHASIS OF MATTER

I wish to draw your attention to the following matter which I consider significant.

### No Impairment Testing performed on Communication Plant and Equipment

Communication Plant and Equipment set out in Note 14 was revalued at 31 December 2011 on a depreciated replacement cost basis in accordance with IAS 16 “Property, Plant and Equipment”. However, no assessment of the recoverable amount of these assets has been conducted by the Company in accordance with IAS 36 “Impairment of Assets”. Accordingly, I was unable to determine whether any adjustments relating to the carrying value of communication plant and equipment were necessary in the financial statements for the year ended 31 December 2012.”

### 71.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2012 was issued on 29 April 2014. The report contained the following observations.

#### Avabill Revenue Mapping Error

There was no adequate review of the revenue interface between Avabill and SAP Reporting System. Management did not have appropriate reconciliations to explain either revenue generated through the Avabill Interface or through Manual Journal Entries. Further, considerable amount of Manual Journal Entries processed due to issues in Avabill Interface were processed without adequate review or approval by appropriate Management Level Staff.

The main reason for the errors was that the Avabill revenue interface table was subject to change by the team leader of revenue assurance team but the team leader in revenue assurance team did not clearly understand the nature of transactions and the changes in the Avabill revenue table and was not appropriately reviewed by the appropriate Management Level Staff. I have recommended to Management that revenue should be directly mapped to appropriate account in the SAP system without manual interference. Management was also requested to take appropriate action to ensure alignment of SAP Trial Balance with Avabill.

Management has responded as follows: “Revenue Assurance Department has been re-engineered and currently doing mediation, revenue reconciliation based on 4 cycle bills per month. Correction journal have been reviewed and signed off by Management with appropriate authority level. Mapping and impacted revenue lines are now being monitored consistently by Revenue Assurance Team.”

#### Overdue Property Rental Receivables

I observed that Property Rental Receivable for approximately K5 million was related to 2011 and the prior years. It was also observed that the Property Division’s records and invoices were maintained and raised manually. Further, there was no evidence that there was any follow up to

ensure the invoices are paid in a timely manner. I recommended that Management should consider bringing the maintenance of accounting records for the Property Division within the SAP system. Furthermore, Management should develop process and controls related to the Recovery of Rental Receivables.

### Title Deeds

I was not provided with 16 Title Deeds of the selected properties for my verification. The failure to have the original copy of the Title Deeds in a secured place could result in Management not being in a position to justify the ownership of the properties and may not be in a position to defend in case of any litigation. I recommended Management maintain a full list of the properties and copies of the Title Deeds at any point of time to ensure the ownership and existence of the properties.

### Fixed Assets Physical Verification

I noted that there were no proper controls and procedures to perform the physical verification of the fixed assets of the Company. I recommended that Management implement proper policies and procedures in place to gain comfort on the existence and accuracy of the fixed assets of the Company and Management responded as follows: "Management is well aware of this vital subject and planning to arrest the same with action. As a start, all mountain top assets listing are provided to technical teams to confirm physical existence and conditions during their visits for maintenance, etc."

### Late Lodgment of Income Tax Return

The Income Tax Return of the Company for the year ended 31 December 2011 was due for lodgment by 30 June 2012 but the return was lodged with the IRC in September 2013.

### Access Administration

A number of weaknesses in IT Security Administration have been identified relating to both logical access to in-scope applications and physical security of the data centre. These included:

- \* Review of user access – no periodic review of the currency and appropriateness of user access to in-scope applications;
- \* Segregation of duties – inadequate segregation of functional access within core business application;
- \* New user access – not evidenced with appropriate access requests and approvals;
- \* Removal of user access – accounts for terminated employees not disabled in a timely manner for some systems; and
- \* Use of generic and shared super user accounts (account with privileged access); and inappropriate access provisioned to the data centre through the granting of "Master Access".

I recommended that the Management ensure:

- \* Implementation of a formal periodic user access review process;
- \* Identification of key conflicting duties and removal of associated systems access;
- \* The consistent use of new employee access form, with approval by Management and retention of the documentation;
- \* As part of the HR termination process, administrators for all in-scope applications should be notified and access should be disabled/removed in a timely manner;

- \* Ceasing use of shared and generic accounts; and
- \* Restricting access to the server room to relevant IT personnel only.

## Backups and Disaster Recovery

Planning for recovery from disaster has not been formalised, documented, tested or communicated. The following issues were identified in relation to backups:

- \* Backups for certain systems had not been performed for several months;
- \* Backups were not periodically sent offsite for certain systems; and
- \* Backup media is not adequately managed, with a known instance of back up data overwritten in error; and periodic testing of back up media was not performed.

I have recommended that Management develop a formal Disaster Recovery Plan (DRP) outlining the responsibilities associated with and steps involved in recovery, based on timeframes required by the business for critical applications. This should be approved by the business, stored in an offsite location and tested periodically.

## Financial Statements Preparation Process

I noted that there was a significant amount of time taken to prepare 2012 financial statements. The financial statements have not been prepared in an appropriate format and did not include all the required disclosures. Furthermore, financial statements provided had not been appropriately reviewed by Management prior to release. In addition, there was no set process to prepare and review the financial statements. I brought this issue to Management and was informed that in future, Management will ensure timely and accurate financial statements provided for audit purposes after Senior Officer's reviews.

### 71.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 was in progress.

#### 71A. KALANG ADVERTISING LIMITED (Subsidiary of Telikom (PNG) Limited)

##### 71A.1 INTRODUCTION

###### 71A.1.1 Legislation

Kalang Advertising Limited was incorporated under the Companies Act. The Company is wholly owned by Telikom (PNG) Limited.

The ownership of the Company changed following the National Court Order of 9 September 1997 which allowed Telikom (PNG) Limited to convert the debt due from Kalang Advertising Limited into shareholding. Subsequently, Kalang issued 535,424 ordinary shares to Telikom (PNG) Limited on 31 October 1997.

###### 71A.1.2 Functions of the Company

Kalang Advertising Limited was set up primarily to take over the activity of commercial radio broadcasting previously under the National Broadcasting Commission.

The Company carries on the business of producers, consultants and promoters of Broadcast Television, Community Television, Video, Audio, Film, Visual, Cassettes Recordings, Productions and Recordings.

## 71A.2 AUDIT OBSERVATIONS

### 71A.2.1 Comments on Financial Statements

In accordance with the provisions of the Companies Act, my report on the Company's financial statements for the year ended 31 December 2012 was issued on 29 April 2014. The report contained a Qualified Opinion.

#### "BASIS FOR QUALIFIED OPINION

Kalang Advertising Limited has recorded GST payable of K196,430 in the statement of financial position as at 31 December 2012 and K51,533 at 31 December 2011. Management have not been able to reconcile their stated GST creditor with the statement of account as at 31 December 2012 or 31 December 2011 provided by the IRC. In addition, there are unsubstantiated differences between the Company's calculated monthly GST liability and the actual payments made for GST. I was unable to obtain sufficient, appropriate audit evidence that the balance is fairly stated and whether any adjustments to this balance were necessary.

#### QUALIFIED OPINION

In my opinion, except for the effects of the matters referred to in the qualification paragraph above:

Kalang Advertising Limited

- (a) The financial statements of Kalang Advertising Limited for the year ended 31 December 2012:
- (i) Give a true and fair view of the financial position and the results of its operations, cash flows and changes in equity for the year ended on that date; and
  - (ii) The financial statements have been presented in accordance with the Companies Act, International Financial Reporting Standards and other generally accepted accounting practice in PNG.
- (b) Proper accounting records have been kept by the Company; and
- (c) I have obtained all the information and explanations I required."

### 71A.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8 (2) of the Audit Act on the inspection and audit of the accounts and records of the Company for the year ended 31 December 2012 was issued on 29 April 2014. The report contained the following observations.

No formal General Ledger Reconciliation and late submission of Tax Returns to the IRC

During my review of statutory payables (Income Tax, GST, Group Tax and Withholding Tax), I noted the following:

\* No formal reconciliation between the General Ledger and the IRC statements of account

performed;

\* The Company has not remitted Income Tax, GST and Withholding Tax on a timely basis; and

\* Income Tax Returns have not been lodged in accordance with audited financial statements.

I brought the issues to Management's attention and was informed as follows: "We accept that there was no formal general ledger reconciliation of the taxes between Internal Revenue Commission statement and accounting records. Our views are that the proper reconciliation of the above taxes would not leave us with significant differences as it fairly represents our tax position. However, we admit that taxes were never paid as and when due because of low cash flow left behind by the previous management in 2012."

Delay in providing information

Management incurred significant delays in providing information for audit due to:

\* Different versions of the trial balance provided after the fieldwork started;

\* General ledger reconciliations including the Fixed Assets Register not completed prior to fieldwork but provided on a piece-meal basis during the audit; and

\* Delays in providing draft financial statements/tax effect calculations.

I have recommended Management consider performing a firm hard close process as at 31 October and same level of support would be required for the period ending 31 December each year to avoid unnecessary delays in future. Management accepted my recommendation.

Kalang Advertising Limited

### 71A.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year ended 31 December 2013 was in progress.

71B. PNG DIRECTORIES LIMITED (Formerly E. H. O'Brien Limited) (Subsidiary of Telikom (PNG) Limited)

### 71B.1 INTRODUCTION

Edward H.O'Brien Limited is a Company incorporated under the Companies Act. The Company is jointly owned by Telikom (PNG) Limited (54%) and Edward H.O'Brien Enterprise of Sydney, Australia (46%). During the year 2002 the Company changed its name to PNG Directories Limited.

### 71B.2 AUDIT OBSERVATIONS

#### 71B.2.1 Comments on Financial Statements

My report in accordance with the provisions for the Companies Act to the members of the Company on the financial statements for the year ended 31 December 2012 was issued on 8 October 2013. The report did not contain any qualification.

### 71B.3 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the year

ended 31 December 2013 was in progress.

## SECTION C

### NATIONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES

#### 72. FOREWORD

This Section of my Report deals with Companies in which the Government owns 50% or less of the issued Share Capital of a Company.

The auditing and reporting requirements of these Companies are stipulated under the Companies Act, and these have been elaborated in Paragraph 60 of this Report.

As the Government of PNG does not hold majority interest in these Companies, the accounts of these Companies are audited by Private Auditors.

However, because public monies are invested in these Companies, my responsibilities require the inclusion of the summaries of their accounts and the comments of the Private Auditors' Reports in this Section of my Report.

#### 73. BOUGAINVILLE COPPER LIMITED

##### 73.1 INTRODUCTION

Bougainville Copper Limited, formerly Bougainville Copper Pty Limited, was incorporated under the Companies Act. The main objectives of the Company are to prospect, explore, quarry, develop, excavate, dredge for, open, work, purchase or otherwise obtain copper and other various metals and minerals.

From 1972 until 1989, the Company operated a large open pit mine and processing facility at Panguna on the island of Bougainville in the North Solomons Province of PNG. It produced concentrate containing copper, gold and silver which was sold primarily under long-term contracts to smelters in Asia and Europe. On 15 May 1989 production was brought to a halt by militant

activity and has not recommenced since.

At 31 December 2012 the issued capital of the Company was 401,062,500 ordinary shares of K1 each, fully paid. Of these, the Government of PNG held 76,430,809 ordinary shares of K1 each, or 19.06% of the total shares.

### 73.2 REPORT OF THE COMPANY'S AUDITORS

A Private Firm of Auditors conducted the audit of the Company's financial statements including the accounts and records for the year ended 31 December 2013 and the audit report was issued on 25 February 2014. This report contained a Disclaimer of Opinion.

#### "BASIS FOR DISCLAIMER OF OPINION

The financial statements of the Company for the year ended 31 December 2013 have been prepared with the inclusion of the Company's mine assets at their 31 December 1991 book value of K198 million. This value is net of a separate general impairment loss provision of K350 million having been made in 1991 for the value of the indeterminate level of deterioration, damage and pilferage of assets which has occurred in the period since the withdrawal of Company personnel from Bougainville in 1990. As explained in Notes 1(b) and 1(c) to the financial statements, there continues to be considerable uncertainty surrounding the future of the Panguna mine, and the extent of deterioration, damage and pilferage of the Company's assets on Bougainville. While the Directors have made the impairment provision in good faith based on the limited information available to them, the actual extent of the necessary write-downs can only be established when access to the mine site by appropriate company representatives is again possible or when a reliable market price for the Panguna mine assets can be determined.

In our opinion, providing for the probable impairment loss from deterioration, damage or pilferage is the appropriate accounting treatment for the actual impairment which will have occurred in the period to 31 December 2013. However, as the actual extent of such impairment cannot presently be established, the recoverable amount of the Company's assets on Bougainville is not capable of reliable measurement or estimation.

#### Bougainville Copper Limited

Accordingly, the impairment provision may eventually prove to be above or below the sum which is necessary to reflect impairment. In the absence of all the necessary information and explanations we require, and for the reasons set out above, we are unable to form an opinion as to whether or not the impairment provision against the carrying amount of mine assets of K350 million is adequate or not and therefore whether the carrying value of the mine assets is properly stated. The mine assets are not being depreciated which is a departure from International Financial Reporting Standards.

The financial statements reflect a provision of K13.9 million for compensation, for which the Company may be liable. The Company may have other compensation, mine rehabilitation and stabilisation obligations. For the same reasons as set out above in relation to mine assets, the Company's actual liability for these costs is subject to significant uncertainty, and we are unable to form an opinion as to whether the provision is fairly stated.

The values attributed to the mine assets and the liabilities for compensation, rehabilitation and

stabilisation, are significant or potentially significant to the financial statements and are of fundamental importance to the presentation of the financial statements. In view of the significance of these matters we are unable to form an opinion as to whether or not the financial statements give a true and fair view of the financial position of the Company as at 31 December 2013 and of its performance for the year ended on that date.

## DISCLAIMER OF OPINION

In our opinion, because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements. Accordingly, we do not express an opinion on the financial statements.

## Report on Other Legal and Regulatory Requirements

The Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2013:

- \* With the exception of the matters described above we have obtained all the information and explanations that we have required;
- \* In our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records; and
- \* We have no relationship with, or interests in, the Company other than in our capacities as auditor and tax advisors. These services have not impaired our independence as auditor of the Company.”

## 74. CTP (PNG) LIMITED (Formerly Pacific Rim Plantations Limited)

### 74.1 INTRODUCTION

Higaturu Oil Palms Limited was incorporated under the Companies Act. The Company was established to develop and operate oil palm estates and oil palm mills, on land leased from the PNG Government at Popondetta. Its name was changed to Pacific Rim Plantations Limited on 21 June 1995. Its name Pacific Rim Plantations was further changed to CTP (PNG) Limited on 25 May 2005.

At 30 April 2010, the authorised share capital of the Company was K100 million and K73.3 million had been issued, comprising 14,661,915 ‘A’ Ordinary Shares of K1 each, 55,466,785 ‘B’ Ordinary Shares of K1 each and 3,184,201 ‘C’ Ordinary Shares of K1 each. Of these, the IPBC held 14,661,915 ‘A’ Ordinary Shares of K1 each representing a 20% shareholding.

On 24 April 2012, the IPBC transferred to New Britain Palm Oil Limited (NBPOL) all of the shares (14,661,915 ‘A’ Ordinary Shares) of the Company owned by the State and received 3,337,147 shares of NBPOL through share exchange agreement.

### 74.2 STATUS OF FINANCIAL STATEMENTS

CTP (PNG) Limited has become a 100% subsidiary of New Britain Palm Oil Limited (NBPOL) in 2012. Since the 20% shareholding of the State in CTP (PNG) Limited through IPBC was fully transferred to NBPOL in exchange of NBPOL shares.

That being the case, I intend to exclude this Company from my future Report to the Parliament.



## 75. GOGOL REFORESTATION COMPANY LIMITED

### 75.1 INTRODUCTION

Gogol Reforestation Company Limited was incorporated under the Companies Act. The objective of the Company is to be involved in reforestation.

At 31 December 2009, the issued and fully paid up capital of the Company comprised 102,001 'A' class ordinary shares of K1.00 each and 98,001 'B' class ordinary shares of K1.00 each. Of these, the Government of PNG held 98,001 'B' class ordinary shares of K1.00 each, representing 49% of the issued Capital at a cost of K98,001.

### 75.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the audited financial statements and the audit report of the Company for the years ended 31 December 2010, 2011, 2012 and 2013 had not been submitted for my inspection and verification.

Further, I was informed by Management that the Company was no longer in operation since 2011 due to the winding down of the Company.

I have written to the IPBC requesting for the winding down documents and IPBC has responded that it has not received any winding down application nor deregistration documents with regards to Gogol Reforestation Co. Limited. A Company search with Investment Promotion Authority (IPA) revealed that the Company is not deregistered.

## 76. OK TEDI MINING LIMITED

### 76.1 INTRODUCTION

Ok Tedi Mining Limited, formerly Mt. Fubilan Development Company Limited, was incorporated under the Companies Act. The main function of the Company is mining.

At 31 December 2011, the issued and fully paid up capital of the Company was K195,102,000 (192,700,000 Ordinary Shares with no par value). Of these, the Government of PNG held fully paid 47,000,000 Ordinary Shares valued at K47,000,000 representing 24.4% of the Ordinary Share capital. On 19 September 2013, the Parliament passed the 10th Supplemental Agreement cancelling the 122,200,000 shares of PNG Sustainable Development Program and issuing 122,200,000 new shares to the State of PNG, making the Company a 100% State owned Enterprise.

### 76.2 REPORT OF THE COMPANY'S AUDITORS

A Private Firm of Auditors have conducted the audit of the Company's financial statements including the accounts and records for the years ended 31 December 2012 and 2013 and the audit reports were issued on 26 February 2013 and 5 March 2014 respectively. These reports did not contain any qualifications.

## 77. PACIFIC FORUM LINE LIMITED

### 77.1 INTRODUCTION

Pacific Forum Line Limited was incorporated in Western Samoa. The main function of the Company is to provide shipping services within the South Pacific Region. The Company has a subsidiary, Pacific Forum Line (NZ) Limited, which is the operating arm of the Company located in Auckland, New Zealand.

At 31 March, 2010 the issued and fully paid up capital of the Company comprised 120,000 'A' Class ordinary shares of NZ\$0.64 (New Zealand Dollar) each and 20,789,582 'B' Class ordinary shares of NZ\$0.64 each. Of these, the Government of PNG held 10,000 'A' Class ordinary shares and 6,037,524 'B' Class ordinary shares of NZ\$0.64 each, representing 8.33% of 'A' Class and 29.04% of 'B' Class ordinary shareholding.

## 77.2 STATUS OF FINANCIAL STATEMENTS

The Government of PNG's shares of 10,000 'A' Class Ordinary and 6,037,524 'B' Class Ordinary was transferred to the Government of Tonga in 2012.

That being the case, I intend to exclude this Company from my future Reports to the Parliament.

## 78. PNG SUSTAINABLE DEVELOPMENT PROGRAM LIMITED

### 78.1 INTRODUCTION

#### 78.1.1 Legislation

The PNG Sustainable Development Program Limited was incorporated in Singapore under the Singapore Companies Act (Cop. 50) on 20 October 2001.

As a Company limited by guarantee PNG Sustainable Development Program Limited has no share capital, debentures, share options and unissued shares.

The principal activity of the Company is to promote sustainable development within, and advance the general welfare of the people of PNG, particularly those of Western Province through supporting programs and projects in the areas of capacity building, health, education, economic development, infrastructure, community self-reliance, local community leadership and institutional capacity and other social and environmental purposes for the benefit of those people.

#### 78.1.2 Objectives of the Company

The objective of the Company is to promote and improve the quality of life of current and future generations of the people of PNG, especially of Western Province by:

- \* Investing and managing wisely the income and resources of the Company;
- \* Undertaking investments and supporting development programs and projects that are sustainable, providing significant benefits in the short and long-term to the people, local communities, provinces and the nation;
- \* Meeting the best international standards – financial, physical, cultural, social and environmental in our activities; and
- \* Working together with the people of PNG in partnership with the government, churches and other non-government and business partners.

#### 78.1.3 Functions of the Company

The primary functions of the Company are to:

- \* Promote sustainable development in Western Province and PNG more generally; and
- \* Manage the Long Term Fund to support a high level of development expenditure in Western Province in particular and PNG in general for at least 40 years after the closure of the Ok Tedi Mine.

## 78.2 STATUS OF FINANCIAL STATEMENTS

At the time of preparing this Report, the Company had not submitted its audited financial statements and the audit reports for the years ended 31 December 2012 and 2013 for my verification.

## SECTION D

### PROBLEM AUDITS

#### 79. FOREWORD

This Section of my Report deals with problem audits. Problem audits denote audit of entities in respect of which I have not been able to carry out audits for circumstances detailed in the respective paragraphs.

##### 79.1 EXCLUSION OF ENTITIES FROM FUTURE REPORTS

The following 2 entities were transferred to Provincial Government Audit Division and as such these entities would be excluded (once all outstanding audits are cleared) in my future Part IV Reports to

Parliament and would be reported in my Part III Report.

\* Motu Koitabu Council and its Subsidiaries

\* Tabudubu Limited (Subsidiary of Motu Koitabu Council)

2At the time of preparing this Report inspection and audit of the accounts and records of the financial statements of Motu Koitabu Council (paragraph 17) and Tabudubu Limited (paragraph 17A) for the years ended 31 December 2003 to 31 December 2007 have been completed and results were being evaluated. From 2008 onwards the reports on the two entities will be reported under Part III of my Annual Report.

## 80. AUDITS IN ARREARS

### 80.1 GENERAL

Audits in arrears are those in respect of which financial statements have not been submitted on time for audit to be undertaken, thus placing my Office in a position where audits are not able to be conducted on a current year basis consistent with the requirements of the Companies Act and the PFMA. Two serious consequences develop from this. Firstly, it results in a build-up of audits in arrears, and these are all audits other than the current year (2013) audits. The other serious consequence is that audit certificates issued more than a year or two in arrears serve only to meet the administrative or legislative requirements, but their validity from a decision making stand-point may be lost due to the time lag.

## 80.2 RESPONSIBILITY FOR PREPARATION OF FINANCIAL STATEMENTS

The responsibility for the preparation and presentation of financial statements is that of the management of the auditee organisation. That being the case, the audit of the financial statements by the Auditor-General does not in any way relieve management of its responsibility to have financial statements prepared on time.

This responsibility also requires management to ensure that an adequate and effective internal control system is maintained so as to ensure, inter-alia, that complete and accurate financial statements are produced on a timely basis. To assist management in producing financial statements that meet the qualitative characteristics, the management's responsibility also extends to ensuring that professionally qualified and experienced accounting personnel are engaged.

It is generally true that irrespective of their completeness, accuracy or reliability, financial statements that are unduly delayed, lose their relevance. Although there is no consensus regarding the length of time that ought to be allowed to elapse between the predetermined reporting date and the date when the financial statements lose their relevance, there is a need to weigh the relative merits of preparing them on a timely basis, let alone the legislative requirements.

Relevant and reliable information therefore is useful for decision making when these are timely prepared and made available to concerned parties. Relevance here is relative to the value and usefulness of the audited financial information to management and the parties concerned for decision making. Current information is of more relevance in the fight against corrupt practices than information that is out of date.

## 80.3 LEGISLATIVE REQUIREMENTS

To ensure the timely preparation of financial statements, Section 63 (1) of the PFMA makes it mandatory for Public Bodies to prepare and furnish audited financial statements, to the Minister responsible, before 30 June each year (Section 63 (2)). The fact that audit of 30 entities as depicted in Schedule B had been in arrears due to non-submission of financial statements is a direct contravention of the requirements of Section 63 (1) referred to above.

Strict adherence of this requirement, despite its mandatory nature, has not been enforced by the respective entities' managements and the authorities concerned. My strong contention is that, enforcement of the above requirements by the authorities concerned and the Minister responsible may have been lacking in the past. There may therefore be a need, whilst ensuring timely accountability of public resources, to take certain Public Bodies to task for non-compliance with mandatory statutory requirements. It is in this connection, that my Office welcomes the introduction of Section 63(6) of the PFMA. This Section imposes penalties on public bodies for non-submission of annual reports to the Minister responsible for financial management.

By virtue of Section 63(5) of the PFMA, the Ministers responsible are required to table the reports

of the respective Public Bodies in Parliament after they are received. The following arrears situation implies that a lot of Public Bodies reports may not have been tabled in Parliament as required, and thus, the accountability to Parliament in these respects has been far short of the desired.

#### 80.4 CURRENT YEAR AUDITS (2013 AUDITS)

Entities totalling 89 subject to audit by the Auditor-General comprise 74 Public Bodies and their subsidiaries, 15 National Government owned companies, and 6 companies in which the National Government has share holdings (referred to as Section 'C' Companies). In addition, I also carried out audits of 9 Projects managed by Public entities as implementing agencies. Table 1 and Chart 1 below provide details of these.

#### TYPES OF AUDIT

Table 1

Section

Types of Audit

Number of Entities

2013/2014

2012/2013

(A)

Public Bodies and their Subsidiaries

74

70

(B)

National Government Owned Companies

15

15

(C)

National Government Shareholdings in other Companies

6

6

Projects

9

5

104

96

Chart 1

#### 80.5 STATUS OF CURRENT YEAR AUDITS

Each of the 89 entities, including the 9 Projects except Section 'C' Companies are subject to audit and required under Section 63(4) of the PFMA to submit annual financial statements for audit. Information available in my Office shows that only 34 (30 entities and 4 projects) have submitted

their financial statements for 2013 (Schedule A) for audit up to the time of preparing this Report. A total of 62 (57 entities and 5 projects) have not submitted their 2013 financial statements (Schedule A) for audit in 2014. It could therefore be logically concluded that, about 63% of the public bodies might not have submitted their annual reports and financial statements for 2013 together with my reports on them, to the respective Ministers for tabling in the National Parliament on or before June 2014.

Table 2 and Chart 2 shown below, and Schedule A attached show the status and the details of the current year audits planned for in 2013.

## STATUS OF CURRENT YEAR AUDITS 2013

Table 2

No.	Status of Current Year Audits	Number of Entities
2013		
2012		
(A)	Audits completed and reports issued thereon (Schedule A)	
14		
9		
(B)	Audits substantially completed (Schedule A)	
5		
12		
(C)	Audits in progress (Schedule A)	
5		
7		
(D)	Audits to commence shortly (Schedule A)	
10		
11		
(E)	Financial Statements not submitted (Schedule A)	
62		
51		
(F)	Audit Portfolios transferred to Provincial Government Audit Branch (Schedule A)	
0		
0		
(G)	Ceased Companies (Schedule A)	
0		
0		

96  
90

Chart 2

80.6 AUDITS IN ARREARS (2012 AND PRIOR YEARS)

Records available in my Office show that a total of 78 entities (132 audits) were in the Audit in Arrears category due to non-submission of financial statements on time. Table 3 and Chart 3 shown below, and Schedule B attached provide more details of these.

STATUS OF AUDITS IN ARREARS BY NUMBER OF ENTITIES (2012 AND PRIOR YEARS)

Table 3A

No.	Status of Audits in Arrears by No. of Entities ( 2012 and Prior Years)	Number of Entities
	2013 Report	
	2012 Report	
(A)	Audits substantially completed (Schedule B)	30
		24
(B)	Audits in progress (Schedule B)	7
		16
(C)	Audits to commence shortly (Schedule B)	11
		8
(D)	Financial Statements not submitted (Schedule B)	30
		27
		78
		75



## Chart 3A

### STATUS OF AUDITS IN ARREARS BY NUMBER OF AUDITS (2010 AND PRIOR YEARS)

Table 3B

No.  
Status of Audits in Arrears by No. Of Audits (2012 & Prior Years)

Number of Audits

2013 Report

2012 Report

(A)

Audits substantially completed (Schedule B)

52

52

(B)

Audits in progress (Schedule B)

9

23

(C)

Audits to commence shortly (Schedule B)

17

8

(D)

Financial Statements not submitted (Schedule B)

54

55

132

138

## Chart 3B

### 80.7 LONG OUTSTANDING FINANCIAL STATEMENTS

During this Audit Cycle (2013/2014) 30 audit entities were in the arrears category, an increase of three compared to prior year (2012). Of these 30 entities, 54 financial statements for periods ranging from one year to eight years have still not been submitted. In other words, they still have financial statements outstanding for the years from 2005 to 2012. Details of these are shown below in Table 4, Chart 4 and also in Schedule C attached.

### LONG OUTSTANDING FINANCIAL STATEMENTS BY NUMBER OF ENTITIES (2012 AND PRIOR YEARS)

Table 4A

No.  
Years Outstanding by Entities  
Number of Entities

2013 Report

2012 Report

(A)

One Year (Schedule C)

19

14

(B)

Two Years (Schedule C)

7

7

(C)

Three Years (Schedule C)

1

1

(D)

Four Years (Schedule C)

0

2

(E)

Five Years (Schedule C)

2

2

(F)

Six Years (Schedule C)

0

1

(G)

Seven Years (Schedule C)

0

0

(I)

Eight Years (Schedule C)

1

0

30

27

Chart 4A

LONG OUTSTANDING FINANCIAL STATEMENTS BY NUMBER OF AUDITS  
(2012 AND PRIOR YEARS)

Table 4B

No.  
Years Outstanding by Audits  
Number of Audits

2013 Report

2012 Report

(A)

One Year (Schedule C)

19

14

(B)

Two Years (Schedule C)

14

14

(C)

Three Years (Schedule C)

3

3

(D)

Four Years (Schedule C)

0

8

(E)

Five Years (Schedule C)

10

10

(F)

Six Years (Schedule C)

0

6

(G)

Seven Years (Schedule C)

0

0

(H)

Eight Years (Schedule C)

8

0

54

55

Chart 4B

As illustrated in Executive Summary Table 1, during July 2013 and June 2014 Audit Cycle a total of 172 audits were undertaken by the Audit Office. Out of 172 audits carried out, 101 audit reports were issued. Table 5 and Chart 5 shown below provide the details of the Status of Audits during the period July 2013 to June 2014.

## STATUS OF AUDITS AS AT 30 JUNE 2013

Table 5

No.	Status of Audits	Number of Audits
2013/2014		
2012/2013		
1	Audits completed and reports issued thereon (Schedule A & E)	101
85		
2	Audits substantially completed (Schedule A & B)	57
64		
3	Audits in progress (Schedule A & B)	14
30		
4	Audits to commence shortly (Schedule A & B)	27
19		
5	Financial Statements not submitted (Schedule A & B)	116
106		
315		
304		

Chart 5

## ACKNOWLEDGEMENTS

My audit staff worked conscientiously and successfully completed audits entrusted to them. Their devotion to duty, their integrity and loyalty are highly appreciated.

I extend my appreciation and gratitude to the Government Printing Office staff, for their efforts in completing the printing of this Report within the limited time frame available. I also acknowledge the co-operation and the assistance of all Heads of Public Bodies and National Government Owned Companies, and Registered Company Auditors and their staff who assisted as my Authorised Auditors.

I would also like to thank the Chairman and the members of the Permanent Parliamentary Committee on Public Accounts of PNG and the Secretary for the continuous interest shown in my work.

SIGNED AT WAIGANI THIS 25thDAY OF JULY TWO THOUSAND AND FOURTEEN

PHILIP NAUGA  
Auditor-General of Papua New Guinea

## SCHEDULES

Schedule 'A'

### STATUS OF CURRENT YEAR (2013) AUDIT

(i) AUDITS COMPLETED AND REPORTS ISSUED THEREON

No.

Section  
Para. No.

Entity

1

A

2

Bank of Papua New Guinea

2

A

5

Cocoa Board of Papua New Guinea

3

A

5A

Cocoa Stabilisation Fund

4

A

10

Independent Consumer and Competition Commission

5

A

14

Kokonas Industri Koporesen

6

A

14A

Papua New Guinea Coconut Extension Fund

7

A

14B

Papua New Guinea Coconut Research Fund

8

A

19

National Agriculture Research Institute

9

A

24

National Economic and Fiscal Commission

10

A

55

Tourism Promotion Authority

11

B

70

Post (PNG) Limited

12

D

85

National Agriculture Research Institute/PNG Incentive Fund Project

13

D

86

National Capital District Commission Urban Youth Employment Project

14

D

88

Productive Partnership in Agriculture Project

(ii) AUDITS SUBSTANTIALLY COMPLETED

No.

Section

Para. No.

Entity

1

A

18

National Agriculture Quarantine and Inspection Authority

2

A

35

National Training Council

3

A

36

National Volunteer Service

4

B

65B

PNG Air Services Limited

5

D

80

Civil Aviation Development Investment Program (CADIP)

(iii) AUDITS IN PROGRESS

No.

Section

Para. No.

Entity

1

B

61  
Air Niugini Limited  
2  
B  
69  
PNG Power Limited  
3  
B  
71  
Telikom PNG Limited  
4  
B  
71A  
Kalang Advertising Limited  
5  
B  
71B  
PNG Directories Limited

(iv) AUDITS TO COMMENCE SHORTLY

No.

Section  
Para. No.

Entity  
1  
A  
4  
Civil Aviation Safety Authority of Papua New Guinea  
2  
A  
7  
Coffee Industry Corporation Limited  
3  
A  
7A  
Coffee Industry Fund  
4  
A  
7B  
Patana No. 61 Limited  
5  
A  
11  
Independent Public Business Corporation  
6  
A  
11B



General Business Trust  
7  
A  
26  
National Gaming Control Board  
8  
A  
32  
National Research Institute  
9  
A  
34  
National Roads Authority  
10  
A  
57  
University of Natural Resources and Environment

(v) FINANCIAL STATEMENTS NOT SUBMITTED

No.

Section

Para. No.

Entity

Last Report Issued

Date of Report

1

A

3

Border Development Authority

2010

21.02.13

2

A

6

Cocoa Coconut Institute Limited of PNG.

2012

25.04.14

3

A

8

Government Printing Office

2011

25.03.14

4

A

9

Independence Fellowship Trust

2011  
27.03.13  
5  
A  
11A  
Aquarius No.61 Limited  
2010  
28.07.11  
6  
A  
11C  
PNG Dams Limited  
2011  
10.07.13

No.

Section  
Para. No.

Entity  
Last Report Issued  
Date of Report

7  
A  
11D  
Port Moresby Private Hospital Limited  
2010  
08.07.11  
8  
A  
12  
Industrial Centres Development Corporation  
2010  
11.11.13  
9  
A  
13  
Investment Promotion Authority  
2012  
29.11.13  
10  
A  
15  
Legal Training Institute  
2012  
24.05.14  
11  
A  
16

Mineral Resources Authority

2010

20.09.13

12

A

20

National AIDS Council Secretariat

2010

26.05.14

13

A

21

National Broadcasting Corporation

2012

25.04.14

14

A

22

National Capital District Commission

2009

26.11.12

15

A

22A

National Capital District Botanical Enterprises Limited

2006

20.05.14

16

A

22B

Port Moresby City Development Enterprises Limited

2005

21.05.12

17

A

23

National Cultural Commission

2011

19.11.13

18

A

25

National Fisheries Authority

2011

26.03.13

19

A

27

National Housing Corporation

2010

31.03.14

20

A

28

National Information and Communication Technology Authority(NICTA)

2011

26.05.14

21

A

29

National Maritime Safety Authority

2012

14.05.14

22

A

30

National Museum and Art Gallery

2010

05.05.14

23

A

31

National Narcotics Bureau

2009

18.11.13

24

A

33

National Road Safety Council

2012

28.04.14

25

A

37

National Youth Commission

2011

26.03.13

26

A

38

Office of Climate Change and Development

New Entity

27

A

39

Oil Palm Industry Corporation

2010

28.06.13

28

A

40

Ombudsman Commission of Papua New Guinea

2012  
21.02.14  
29  
A  
41  
Pacific Games (2015) Authority  
New Entity  
30  
A  
42  
Papua New Guinea Accident Investigation Commission  
New Entity  
31  
A  
43  
Papua New Guinea Immigration and Citizenship Service Authority

2011

11.04.14  
32  
A  
44  
Papua New Guinea Forest Authority  
2008  
25.03.13  
33  
A  
45  
Papua New Guinea Institute of Medical Research  
2011  
27.02.14

No.

Section  
Para. No.

Entity  
Last Report Issued  
Date of Report  
34  
A  
46  
Papua New Guinea Institute of Public Administration  
2010  
12.10.11  
35  
A  
47

Papua New Guinea Maritime College

2010

31.03.14

36

A

48

Papua New Guinea National Institute of Standards and Industrial Technology

2009

23.06.11

37

A

49

Papua New Guinea Sports Foundation

2004

31.10.13

38

A

50

Papua New Guinea University of Technology

2009

14.12.12

39

A

50A

Unitech Development and Consultancy Company Limited

2012

25.10.13

40

A

51

Parliamentary Members Retirement Benefits Fund

2012

08.05.14

41

A

52

Public Curator of Papua New Guinea

2010

10.05.12

42

A

53

Security Industries Authority

2010

28.03.14

43

A

54

Small Business Development Corporation

2011

28.04.14

44

A

56

University of Goroka

2010

18.11.13

45

A

56A

Unigor Consultancy Limited

2009

19.03.13

46

A

58

University of Papua New Guinea

2008

17.10.12

47

A

58A

Unisave Limited

No Report Issued

48

A

58B

Univentures Limited

2011

24.06.14

49

A

59

Water PNG

2010

18.06.14

50

B

62

Livestock Development Corporation Limited

2009

31.10.12

51

B

63

Mineral Resources Development Company Limited

2010

12.06.13

52

B  
64  
Motor Vehicles Insurance Limited  
2010  
24.04.14

53  
B  
65  
National Airports Corporation Limited  
2010  
08.10.12

54  
B  
65A  
Airport City Development Limited  
New Entity  
55

B  
66  
National Petroleum Company of PNG (Kroton) Limited  
2010

20.12.13  
56  
B  
67  
NCD Water and Sewerage Limited (EdaRanu)  
2012  
19.06.13

57  
B  
68  
Papua New Guinea Ports Corporation Limited  
2011  
10.07.13

58  
D  
81  
Cocoa Pod Borer Project  
No Report Issued  
59

D  
82  
Cocoa Quality Promotion Project  
No Report Issued  
60

D  
83  
Japan Fund for Poverty Reduction Project



2012  
20.11.13

No.

Section  
Para. No.

Entity  
Last Report Issued  
Date of Report  
61  
D  
84  
Lae Port Development Project  
2011  
10.07.13  
62

D  
87  
Port Moresby Sewerage System Upgrading Project (POMSSUP)

No Report Issued

(vi) AUDIT PORTFOLIOS TRANSFERRED TO PROVINCIAL GOVERNMENT AUDIT BRANCH

No.  
Section  
Para. No.  
Entity  
Last Report Issued  
Date of Report  
1  
A  
17  
Motu Koitabu Council  
No Report Issued  
2  
A  
17A  
Tabudubu Limited  
No Report Issued

Schedule 'B'

STATUS OF AUDITS IN ARREARS (2012 AND PRIOR YEARS)

(i) AUDITS SUBSTANTIALLY COMPLETED

No.

Section

Para. No.

Entity

Year

No. of Audits

1

A

3

Border Development Authority

2011

1

2

A

11

Independent Public Business Corporation

2012

1

3

A

11A

Aquarius No.61 Limited

2011 &

2012

2

4

A

11C

PNG Dams Limited

2012

1

5

A

11D

Port Moresby Private Hospital Limited

2011 &

2012

2

6

A

12

Industrial Centres Development Corporation

2011

1

7

A

17

Motu Koitabu Council

2003 – 2007

5

8

A

17A

Tabudubu Limited

2003 – 2007

5

9

A

22

National Capital District Commission

2010

1

10

A

22A

National Capital District Botanical Enterprises Limited

2007

1

11

A

22B

Port Moresby City Development Enterprises Limited

2006 &

2007

2

12

A

25

National Fisheries Authority

2012

1

13

A

30

National Museum and Art Gallery

2011 &

2012

2

14

A

31

National Narcotics Bureau

2010 – 2012

3

15

A

35

National Training Council

2010 – 2012

3

16

A

36

National Volunteer Service

2011 &

2012

2

17

A

44

Papua New Guinea Forest Authority

2009

1

18

A

46

Papua New Guinea Institute of Public Administration

2011

1

19

A

47

Papua New Guinea Maritime College

2011 &

2012

2

20

A

48

Papua New Guinea National Institute of Standards & Industrial Technology

2010

1

21

A

53

Public Curator of Papua New Guinea

2011

1

22

A

56

University of Goroka

2011

1

23

A

58A

Unisave Limited

2011

1  
24  
B  
63  
Mineral Resources Development Company Limited  
2011  
1  
25  
B  
66  
National Petroleum Company of PNG (Kroton) Limited  
2011  
1  
26  
B  
68  
Papua New Guinea Ports Corporation Limited  
2012  
1  
27  
D  
81  
Cocoa Pod Borer Project  
2010 - 2012  
3  
28  
D  
82  
Cocoa Quality Promotion Project  
2011  
1  
29  
D  
84  
Lae Port Development Project  
2012  
1  
30  
D  
87  
Port Moresby Sewerage System Upgrading Project (POMSSUP)  
2010 - 2012  
3  
52

(ii) AUDITS IN PROGRESS

No.

Section  
Para. No.

Entity

Year  
No. of Audits

1  
A  
4  
Civil Aviation Safety Authority of Papua New Guinea  
2012

1  
2  
A  
16  
Mineral Resources Authority  
2011

1  
3  
A  
22  
National Capital District Commission  
2011

1  
4  
A  
41  
Pacific Games (2015) Authority  
2011 & 2012

2  
5  
A  
44  
Papua New Guinea Forest Authority  
2010

1  
6  
B  
64  
Motor Vehicles Insurance Limited  
2011 & 2012

2  
7  
B  
65  
National Airports Corporation Limited  
2011

1  
9  
(iii) AUDITS TO COMMENCE SHORTLY

No.

Section  
Para. No.

Entity

Year  
No. of Audits

1  
A  
3  
Border Development Authority  
2012  
1  
2  
A  
20  
National AIDS Council Secretariat  
2011  
1  
3  
A  
22  
National Capital District Commission  
2012  
1  
4  
A  
27  
National Housing Corporation  
2011 & 2012  
2  
5  
A  
28  
National Information and Communication Technology Authority (NICTA)  
2012  
1  
6  
A  
42  
Papua New Guinea Accident Investigation Commission  
2011 & 2012  
2  
7  
A  
50  
Papua New Guinea University of Technology

2010 & 2011

2

8

A

54

Small Business Development Corporation

2012

1

9

A

56

University of Goroka

2012

1

10

A

58

University of Papua New Guinea

2009 - 2012

4

11

B

62

Livestock Development Corporation Limited

2010

1

17

(iv) FINANCIAL STATEMENTS NOT SUBMITTED

No.

Section

Para. No.

Entity

Year

No. of Audits

1

A

8

Government Printing Office

2012

1

2

A

9

Independence Fellowship Trust

2012

1



3  
A  
12  
Industrial Centres Development Corporation  
2012

1  
4  
A  
16  
Mineral Resources Authority  
2012

1  
5  
A  
20  
National AIDS Council Secretariat  
2012

1  
6  
A  
22A  
National Capital District Botanical Enterprises Limited  
2008 - 2012

5  
7  
A  
22B  
Port Moresby City Development Enterprises Limited  
2008 - 2012

5  
8  
A  
23  
National Cultural Commission  
2012

1  
9  
A  
37  
National Youth Commission  
2012

1  
10  
A  
38  
Office of Climate Change and Development  
2011 & 2012

2  
11  
A  
39

Oil Palm Industry Corporation

2011 & 2012

2

12

A

43

Papua New Guinea Immigration and Citizenship Service Authority

2012

1

13

A

44

Papua New Guinea Forest Authority

2011 & 2012

2

No.

Section

Para. No.

Entity

Year

No. of Audits

14

A

45

Papua New Guinea Institute of Medical Research

2012

1

15

A

46

Papua New Guinea Institute of Public Administration

2012

1

16

A

48

Papua New Guinea National Institute of Standards and  
Industrial Technology

2011 & 2012

2

17

A

49

Papua New Guinea Sports Foundation

2005 - 2012

8

18

A

50

Papua New Guinea University of Technology

2012

1

19

A

52

Public Curator of Papua New Guinea

2012

1

20

A

53

Security Industries Authority

2011 & 2012

2

21

A

56A

Unigor Consultancy Limited

2010 - 2012

3

22

A

58A

Unisave Limited

2012

1

23

A

58B

Univentures Limited

2012

1

24

A

59

Water PNG

2011 & 2012

2

25

B

62

Livestock Development Corporation Limited

2011 & 2012

2

26

B

63

Mineral Resources Development Company Limited

2012

1

27

B

65

National Airports Corporation Limited

2012

1

28

B

65A

Airport City Development Limited

2012

1

29

B

66

National Petroleum Company of PNG (Kroton) Limited

2012

1

30

D

82

Cocoa Quality Promotion Project

2012

1

54

LONG OUTSTANDING FINANCIAL STATEMENTS (2012 & PRIOR YEARS)

(i) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN ONE YEAR

No.

Section

Para. No.

Entity

No. of Audits

1

A

8

Government Printing Office

1

2

A

9

Independence Fellowship Trust

1  
3  
A  
12  
Industrial Centres Development Corporation

1  
4  
A  
16  
Mineral Resources Authority

1  
5  
A  
20  
National AIDS Council Secretariat

1  
6  
A  
23  
National Cultural Commission

1  
7  
A  
37  
National Youth Commission

1  
8  
A  
43  
Papua New Guinea Immigration and Citizenship Service Authority

1  
9  
A  
45  
Papua New Guinea Institute of Medical Research

1  
10  
A  
46  
Papua New Guinea Institute of Public Administration

1  
11  
A  
50  
Papua New Guinea University of Technology

1  
12  
A  
52

Public Curator of Papua New Guinea

1

13

A

58A

Unisave Limited

1

14

A

58B

Univentures Limited

1

15

B

63

Mineral Resources Development Company Limited

1

16

B

65

National Airports Corporation Limited

1

17

B

65A

Airport City Development Limited

1

18

B

66

National Petroleum Company of PNG (Kroton) Limited

1

19

D

82

Cocoa Quality Promotion Project

1

19

(ii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN TWO YEARS

No.

Section

Para. No.

Entity

No. of Audits

1

A

38  
Office of Climate Change and Development  
2  
2  
A  
39  
Oil Palm Industry Corporation  
2  
3  
A  
44  
Papua New Guinea Forest Authority  
2  
4  
A  
48  
Papua New Guinea National Institute of Standards and Industrial Technology  
2  
5  
A  
53  
Security Industries Authority  
2  
6  
A  
59  
Water PNG  
2  
7  
B  
62  
Livestock Development Corporation Limited  
2  
14

(iii) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN THREE YEARS

No.

Section  
Para. No.

Entity  
No. of Audits

1  
A  
56A  
Unigor Consultancy Limited

3

(iv) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN FIVE YEARS

No.

Section  
Para. No.

Entity  
No. of Audits  
1  
A  
22A  
National Capital District Botanical Enterprises Limited  
5  
2  
A  
22B  
Port Moresby City Development Enterprises Limited  
5  
10

(v) FINANCIAL STATEMENTS OUTSTANDING FOR MORE THAN EIGHT YEARS

No.

Section  
Para. No.

Entity  
No. of Audits  
1  
A  
49  
Papua New Guinea Sports Foundation  
8  
8  
  
54

NON OPERATIONAL ENTITIES AND OTHERS

(a) AUDIT PORTFOLIOS TRANSFERRED TO PROVINCIAL GOVERNMENT AUDIT BRANCH

No.

Section



Para. No.

Entity

Last Year of Audit

1

A

17

Motu Koitabu Council

2007

2

A

17A

Tabudubu Limited

2007

(b) OTHERS – NATIONAL GOVERNMENT SHAREHOLDINGS IN OTHER COMPANIES

No.

Section

Para. No.

Entity

Remarks

1

C

73

Bougainville Copper Limited

2013 completed.

2

C

74

CTP (PNG) Limited (Former Pacific Rim)

Shares fully transferred to NBPOL.

3

C

75

Gogol Reforestation Company Limited

Audited financial statements not submitted (2010 – 2013).

4

C

76

Ok Tedi Mining Limited

2012 and 2013

completed.

5

C

77

Pacific Forum Line Limited  
Audited financial statements not submitted (2011 – 2012).  
6  
C  
78

PNG Sustainable Development Program Limited  
Audited financial statements not submitted (2012 & 2013).

(c) PROJECT AUDIT PORTFOLIOS

No.	Section Para. No.	Entity	Status of Audit
1	D	80	Civil Aviation Development Investment Program (CADIP) 2013 substantially completed
2	D	81	Cocoa Pod Borer Project 2010 – 2012 substantially completed and 2013 not submitted.
3	D	82	Cocoa Quality Promotion Project 2011 substantially completed, 2012 and 2013 not submitted.
4	D	83	Japan Fund for Poverty Reduction Project 2011 and 2012 completed and 2013 not submitted.
5	D	84	Lae Port Development Project 2012 substantially completed and 2013 not submitted
6	D	85	National Agriculture Research Institute/PNG Incentive Fund Project Completed for the whole project.

7

D

86

National Capital District Commission Urban Youth Employment Project  
2013 completed.

8

D

87

Port Moresby Sewerage System Upgrading Project (POMSSUP)  
2010 – 2012 substantially completed and 2013 not submitted.

9

D

88

Productive Partnership in Agriculture Project  
2013 completed.

Schedule 'E' 2012 AUDITS – COMPLETED DURING 2013/2014

2011 AUDITS – COMPLETED DURING 2013/2014

No.  
Section  
Para. No.  
Entity  
1  
A  
4  
Civil Aviation Safety Authority of Papua New Guinea  
2  
A  
8  
Government Printing Office  
3  
A  
23  
National Cultural Commission  
4  
A  
24  
National Economic and Fiscal Commission

No.  
Section  
Para. No.  
Entity  
5  
A  
28  
National Information and Communication Technology Authority (NICTA)  
6  
A  
34  
National Roads Authority  
7  
A  
40  
Ombudsman Commission of Papua New Guinea  
8  
A  
43  
Papua New Guinea Immigration and Citizenship Service Authority  
9  
A  
45

Papua New Guinea Institute of Medical Research  
10  
A  
50A  
Unitech Development and Consultancy Company Limited  
11  
A  
54  
Small Business Development Corporation  
12  
A  
57  
University of Natural Resources and Environment  
13  
A  
58B  
Univentures Limited  
14  
B  
69  
PNG Power Limited  
15  
D  
83  
Japan Fund for Poverty Reduction Project

#### 2010 AUDITS – COMPLETED DURING 2013/2014

No.  
Section  
Para. No.  
Entity  
1  
A  
4  
Civil Aviation Safety Authority of Papua New Guinea  
2  
A  
8  
Government Printing Office  
3  
A  
12  
Industrial Centres Development Corporation  
4  
A  
16  
Mineral Resources Authority  
5  
A  
20

National AIDS Council Secretariat

6

A

23

National Cultural Commission

7

A

24

National Economic and Fiscal Commission

8

A

27

National Housing Corporation

9

A

28

National Information and Communication Technology Authority (NICTA)

10

A

30

National Museum and Art Gallery

11

A

36

National Volunteer Service

12

A

47

Papua New Guinea Maritime College

13

A

53

Security Industries Authority

14

A

56

University of Goroka

15

A

58B

Univentures Limited

16

A

59

Water PNG

17

B

64

Motor Vehicles Insurance Limited

18

B

66  
National Petroleum Company of PNG (Kroton) Limited

2009 AUDITS – COMPLETED DURING 2013/2014

No.  
Section  
Para. No.  
Entity  
1  
A  
20  
National AIDS Council Secretariat  
2  
A  
24  
National Economic and Fiscal Commission  
3  
A  
27  
National Housing Corporation  
4  
A  
30  
National Museum and Art Gallery  
5  
A  
31  
National Narcotics Bureau  
6  
A  
36  
National Volunteer Service

No.  
Section  
Para. No.  
Entity  
7  
A  
47  
Papua New Guinea Maritime College  
8  
A  
56  
University of Goroka  
9  
A  
58B  
Univentures Limited

2008 AUDITS – COMPLETED DURING 2013/2014

No.  
Section  
Para. No.  
Entity  
1  
A  
24  
National Economic and Fiscal Commission  
2  
A  
27  
National Housing Corporation  
3  
A  
31  
National Narcotics Bureau  
4  
A  
36  
National Volunteer Service  
5  
A  
58B  
Univentures Limited

2007 AUDITS – COMPLETED DURING 2013/2014

No.  
Section  
Para. No.  
Entity  
1  
A  
24  
National Economic and Fiscal Commission  
2  
A  
36  
National Volunteer Service  
3  
A  
58B  
Univentures Limited

2006 AUDITS – COMPLETED DURING 2013/2014

No.  
Section  
Para. No.



Entity  
1  
A  
22A  
National Capital District Botanical Enterprises Limited

2005 AUDITS – COMPLETED DURING 2013/2014

No.  
Section  
Para. No.  
Entity  
1  
A  
22A  
National Capital District Botanical Enterprises Limited

2004 AUDITS – COMPLETED DURING 2013/2014

No.  
Section  
Para. No.  
Entity  
1  
A  
22A  
National Capital District Botanical Enterprises Limited  
2  
A  
49  
Papua New Guinea Sports Foundation

2003 AUDITS – COMPLETED DURING 2013/2014

No.  
Section  
Para. No.  
Entity  
1  
A  
22A  
National Capital District Botanical Enterprises Limited  
2  
A  
49  
Papua New Guinea Sports Foundation