

REPORT OF THE AUDITOR-GENERAL ON ACCOUNTS OF THE NATIONAL ECONOMIC & FISCAL COMMISSION FOR THE YEAR ENDED 31 DECEMBER 2017



Highlands Regional Workshops



Momase Regional Workshops

Service Delivery
Impediments are
addressed through
Regional Workshops



New Guinea Islands Regional Workshops



Southern Regional Workshops



**REPORT OF
THE AUDITOR-GENERAL
ON THE ACCOUNTS OF THE
NATIONAL ECONOMIC & FISCAL COMMISSION

FOR THE YEAR ENDED 31 DECEMBER 2017**



**An Assurance Audit Report of the Auditor General on the Financial
Statements of the National Economic & Fiscal Commission for the year
ended 31 December, 2017**

OFFICE OF THE AUDITOR-GENERAL

2 April 2019

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

Dear Mr Speaker,

In accordance with the provisions of *Section 214* of the *Constitution of the Independent State of Papua New Guinea*, I forward herewith a copy of my report signed on 24 July 2019 upon the inspection and audit of the financial statements of the National Economic & Fiscal Commission for the year ended 31 December 2017.

Yours sincerely,



GORDON KEGA, CPA
Acting Auditor-General

AUDITOR-GENERAL'S REPORT ON THE NATIONAL ECONOMIC & FISCAL COMMISSION

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1. Executive Summary

Results of Operations

The National Economic & Fiscal Commission recorded K346,051 in net surplus in 2017, a K227,759 decrease from the 2016 result but still within average performance for the financial period. This decrease is mainly attributed to the decrease in Government Grants.

Expansion/Development programs

The National Economic & Fiscal Commission has continued to seek innovative initiatives to promote ongoing government reforms. The NEFC use the Regional Workshops to raise awareness of lesser known sectors which contributed to the delivery of services.

The NEFC has been collaborating with major stakeholders like health, education, churches, courts and others for better service delivery by the Government to the people of Papua New Guinea.

2. Enabling Entity Legislation

Functional Responsibilities/Mandate

The National Economic & Fiscal Commission is provided for under section 187H of the National Constitution of Papua New Guinea. NEFC Operates under the following specific Legislations;

- Organic Law on Provincial & Local Level Governments (OLPLLG)-Section 117.
- Intergovernmental Relations (Functions & Funding) Act 2009.
- NEFC Act 2009.

The overarching role of the NEFC is to provide advice to the government on intergovernmental financing. The Commission is responsible;

- assessing and monitoring the economic and fiscal policies of the National Government, Provincial Government and Local Level Governments;
- advise and recommend to the National Executive Council, appropriate economic policies
- make recommendations to the National Executive Council and to the National Parliament on the financial arrangements and allocation of grants.

Functional Structure

The main function of the National Economic and Fiscal Commission is to provide quality independent and objective advice on economic and public policy issues to the Government. The CEO/Chairman of the National Economic & Fiscal Commission reports to the Minister for Treasury.

3. Policies and Budget

Corporate Plan

NEFC focuses on formulating, analyzing, monitoring and evaluating economic policies and strategies for the purpose of unlocking the full economic value and enhancing the performance of provinces in order to return optimum benefits to the shareholders (primarily, the State and the people of Papua New Guinea);

- Building effective strategic partnership networks with stakeholders and clients at the national, provincial, districts, local level government, wards and communities;
- Providing Independent and Objective Policy Advice to Government
- Promoting Transparency in Government with particular emphasis on equitable allocation of grants to Provinces and Local level governments based on sound economic and fiscal criteria
- Reviewing and upgrading of policies and its own business methodologies, systems and processes and management systems; and
- Measuring the impact of work and its contribution to good governance.

Budget

The recurrent budget for the National Economic and Fiscal Commission is made up of both the Personnel Emolument Components and goods and services from which payments are done through proper procurement processes in accordance with the Public Finances (*Management*) (*Amendment*) Act, 2016 and their operational manual. The Commission get funding through the budget.

The Commission's only receipts is through Budget allocations under the National Economic & Fiscal Commission of K2,698,846 was facilitated through the annual budget cycle in 2017.

The operational expenses of the Commission are budgeted for internally and actual expenditures are being monitored against budget ceilings on a regular basis.

Policies

The Corporate Service Division has formulated and oversee their operational and accounting policies and other occupational health, safety and workplace Policies. Generic compliances are placed on Public Finances Management Act, General Orders and Accounting Standards for the management over the past periods.

4. Role and Mandate of Auditor General

The responsibilities of the Auditor-General are specified in *Section 214* of the Constitution, *Sections 3, 4 and 8* of the *Audit Act, 1989 (as amended)* and *Section 63(4)* of the *Public Finances (Management)(Amendment) Act, 2016*. Subject to these laws, the Auditor-General has complete discretion in the performance or exercise of the mandated functions or powers.

5. Audit Scope and Nature

Audit Scope

The audit was conducted in accordance with the *Audit Act 1989, International Standards on Auditing* and the promulgated best business practices.

Nature of audit

The engagement is an assurance audit engagement in compliance with the *Audit Act, 1989 (as amended)* and *Public Finances (Management) (Amendment) Act, 2016*.

Period of reporting

The period of reporting covers for the financial year ended 31 December 2017 and the audit has been completed and the Reports were issued on the 24 July, 2018.

6. Results of Audit

Audit Opinion

The Audit report in accordance with the provisions of the *Audit Act, 1989 (as amended)* on the financial Statements of the National Economic & Fiscal Commission for the year ended 31 December 2017 was issued on 24 July 2018. The report did not contain any qualification.

Audited Financial Statements

The Audited Financial Statements are attached with this report (*Refer to attachment C*).

Significant matters of Concern

My report to the Ministers under *Section 8(2)* of the *Audit Act, 1989 (as amended)* on the inspection and audit of the accounts and records of the Commission for the year ended 31 December 2017 was issued on 24 July 2018. Some of the key points noted in the control weakness area were:

➤ **Bank Reconciliations**

I noted that controls surrounding the bank reconciliation process was weak. The Commission's bank monthly reconciliations were not prepared checked and approved by a Senior Finance Officer on a timely basis (*Refer to attachment B*).

➤ **Fixed Asset Register**

The Commission did not maintain a proper Assets Register for all its assets for the year under review. The Register did not capture the identification numbers to identify individual assets and there was no physical stock take undertaken during the year under review (*Refer to attachment B*).

7. Entity Comments, Responses

Responses from the client to the issues that have been raised are also included and form part of the report (*Refer to attachment B*).

8. Stakeholder Expectation

The benchmark the Commission would have on the stakeholders and their expectation is inclined to the mandated responsibilities and how effectively and efficiently this is discharged which is better delivery of services to the people of Papua New Guinea.

9. Recommendations

Specific recommendations proposed to the Commission have been reproduced (***Refer to attachment B***) and form part of the audit report.

Attachment: A

Audit report on the National Economic & Fiscal Commission in accordance with *section 8(4)*
of the *Audit Act, 1989* as amended.



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Our Reference: 31-55-4

The Honourable Charles Abel, MP

Deputy Prime Minister and Minister for Treasury

Office of the Minister

Vulupindi Haus – Level 4

PO Box 542

WAIGANI, NCD

INDEPENDENT AUDIT REPORT ON NATIONAL ECONOMIC & FISCAL COMMISSION FOR THE YEAR ENDED 31 DECEMBER 2017

In accordance with *Section 8(4) of the Audit Act, 1989 (as amended)*, I have audited the accompanying financial statements of the **National Economic and Fiscal Commission** for the year ended **31 December, 2017** as set out on pages **5 to 6**, which comprise the statement of Receipts and Payments and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Management of the Commission is responsible for the preparation and fair presentation of the financial statements in accordance with *Generally Accepted Accounting Practice adopted in Papua New Guinea, Section 63(2) of the Public Finances (Management) (Amendment) Act, 2016* and other Statutory Requirements. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

Responsibility of the Auditor-General

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the *Audit Act*, and *International Standards on Auditing*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

Audit Report on the Accounts & Records for National Economic and Fiscal Commission for the year ended 31 December 2017

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

AUDIT OPINION

I now report that in my opinion:

- a) the financial statements of the Commission are based on proper accounts and records;
- 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, 2017 and the results of its financial operations for the year then ended.



GORDEN KEGA
Acting Auditor-General

24 July 2018

Attachment: B

Audit report on the National Economic & Fiscal Commission in accordance with *section 8(2)*
of the *Audit Act, 1989* as amended.



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Our Reference: 31-55-4

The Honourable Charles Abel, MP

Deputy Prime Minister and Minister for Treasury

Office of the Minister

Vulupindi Haus – Level 4

PO Box 542

WAIGANI, NCD

**INDEPENDENT AUDIT REPORT ON
NATIONAL ECONOMIC AND FISCAL COMMISSION
FOR THE YEAR ENDED 31 DECEMBER 2017**

In accordance with *Section 8(2) of the Audit Act, 1989 (as amended)*, I have inspected and audited the accounts and records of the financial transactions of the **National Economic and Fiscal Commission** for the year ended **31 December, 2017**.

My report in terms of *Section 8(4) of the Audit Act, 1989 (as amended)*, on the Commission's financial statements for the year ended 31 December, 2017 was forwarded to you on even date under separate cover. This report did not contain any qualification.

OTHER MATTERS

Other significant matters noted during the course of the audit are given below:

Bank Reconciliations

My review of the cash at bank revealed that the bank reconciliations were not prepared on a timely basis, checked and certified by senior competent officers of the Commission for the months of July through to December 2017. As a result, I could not ascertain whether proper controls are implemented in relation to bank reconciliation process. I recommend the Commission to comply with the *Financial Management Manual Part 3, section 4.7* (Bank Reconciliations) that requires all Heads of Government Departments and Statutory Authorities to ensure that their Bank Accounts are reconciled on a monthly basis. The management responded to my observation as follows;

“We acknowledge the issue raised and corrective measures and periodic bank reconciliation will be adhered.”

Fixed Asset Register

It is a requirement under the *Public Finances (Management) Act, 1995* and the *Financial Management Manual (Section 12)* for the Commission to properly maintain and safeguard assets under its custody. My review of the Fixed Assets revealed that the Commission did not maintain a proper Assets Register for all its assets for the year under review. The Register did not capture the identification numbers to identify individual assets and there was no physical stock take undertaken during the year under review. As a result, I was unable to determine the fair value, the state, and the location of the assets.

I recommended Management to take a complete stock-take of all its assets and update the Fixed Assets Register to reflect the accurate information. The Authority responded to my concern as follows;

"We acknowledged the issue and will take necessary actions to carry out complete stock take of all assets to be brought to the next commissioners meeting for the update of the Assets Register."

Staff Personnel Files

My review of the personnel emoluments revealed that staff personal files were not properly maintained. I noted that records such as salaries and allowances variation advices, tax declaration forms and appointment letters were not on file for audit verification. The Commission also did not maintain control records such as salary history cards/leave history records (annual leave, long service leave and sick leave) to assist in the verification of annual leave and long service leave entitlements.

I recommended Management to update all Staff Personnel Files on a regular basis and the Management responded as follows;

"We acknowledge the issue and have since advertised and awaiting DPM to complete the process of appointing an experienced HR officer as a corrective measure."


Group Tax Liability

During my review of the Salaries it was revealed that casual wages were paid out from the Commission's Operational bank account. Based on the Commission's fortnightly calculations, a total of K12,854 has been deducted for tax in 2017. This tax liability was withheld by the Commission but had not been remitted to the Internal Revenue Commission.

I recommended Management to comply with respective tax provisions and the Management responded as follows;

Audit Report on the Accounts & Records of National Economic and Fiscal Commission for the year ended 31 December 2017

“We have been complying but there were no mechanism/tax coding in place with the IRC to capture tax payment from NEFC. We acknowledge the issue and agree to review for proper controls and will comply to correct this weakness by applying for Tax Identification Number (TIN) for NEFC.”

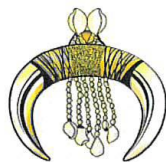


GORDEN KEGA
Acting Auditor-General

24 July 2018

Attachment: C

The 2017 Audited Financial Statements



**NATIONAL ECONOMIC &
FISCAL COMMISSION**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017**

**NATIONAL ECONOMIC & FISCAL COMMISSION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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NATIONAL ECONOMIC & FISCAL COMMISSION


DECLARATION BY MANAGEMENT

In our opinion, the accompanying Statements of Receipts & Payments and notes to and forming part of the accounts of the National Economic & Fiscal Commission have been drawn in the manner of its occurrences showing fairly the financial operations for the year ended 31 December 2017.

As disclosed in the above statements, we are of the opinion that:

- (a) the results of the organization's operation of this financial period has not been materially affected by items, transactions or events of an abnormal character.
- (b) no circumstances have arisen which would render any amount shown in the statements misleading.


.....
HOHORA SUVE
A/CHAIRMAN/CEO


.....
PATRICK PAINAP
DIRECTOR
ECONOMIC POLICY
RESEARCH & HR

NATIONAL ECONOMIC & FISCAL COMMISSION

STATEMENTS OF RECEIPTS AND PAYMENTS
FOR YEAR ENDED 31 DECEMBER 2017

	Notes	2017 <u>K</u>	2016 <u>K</u>
RECEIPTS			
Opening Bank Balance as at 1 January, 2017		573,810	968,907
Government Grants	2	1,506,177	2,292,971
Concept Payroll (DoF)		1,192,669	844,918
Total Receipts		3,272,656	4,106,796
LESS: PAYMENTS			
Personnel Emoluments	3	1,360,406	1,373,639
Travel & Subsistence		607,400	687,124
Utilities		-	153,417
Supplies & Consumables	4	113,031	256,405
Transport and Fuel		51,018	99,356
Routine Maintenance		89,286	97,379
Other Operational Expenses		660,232	919,609
Capital Expenditures	5	18,162	55,187
Training & Consultancy	6	26,700	81,722
Bank Charges		370	301
Prior Year Adjustments		-	191,153
Total Payments		2,926,605	3,532,986
Net Surplus(Deficit) as at 31 December 2017		346,051	573,810

The accompanying notes form part of this financial statement



NATIONAL ECONOMIC & FISCAL COMMISSION

NOTES TO AND FORMING PART OF THE STATEMENT OF RECEIPTS
AND PAYMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 K	2016 K
1 The Commission operated a drawing bank account with the Bank South Pacific in September of 2009. The Commission uses the cash basis method of accounting Appropriations from the Government are deposited into this account and paid out for the operations of Commission.		
2 Appropriation		
Recurrent Appropriations	2,838,400	3,498,500
Funds credited to Bank	1,506,177	2,292,971
Amount retained by Dept of Finance	1,332,223	844,918
As at 31 December 2017 Grants for the month of July, August, September, November and December were not remitted to NEFC operating account which result in amount outstanding of K782,603.00 from the total appropriation for NEFC from Department of Finance and Treasury.		
3 Salaries		
Salaries and Allowances are paid through the Department of National Planning and Monitoring salary code. A total of K549,620 was retained by DoF as the salary component as per the Cash Fund Certificates (CFC). Total Salaries paid for the year was K1,122,741.92 as provided by Department of Personnel Management (DPM).		
Salary retained by DoF	69,928	0
Actual Payroll 2017	1,122,741	884,918
	1,192,669	884,918
Concept Payroll (External - DoF)	1,122,741	1,097,986
NEFC Salaries (Internal - PGAS)	0	181,766
Wages	74,408	0
Overtime	3,746	0
Leave Fares	39,424	40,299
Gratuity	111,086	53,587
Contract Officers Education Benefits	9,000	0
	1,360,406	1,373,639
4 Supplies & Consumables		
Office Materials and Supplies	58,606	124,998
Operational Materials and Supplies	54,425	131,408
	113,031	256,405
5 Capital Expenditure		
Office Furniture & Equipment	0	16,983
Construction, Renovation & Improvements	18,162	28,385
Purchase of Motor Vehicles		
	18,162	45,368
6 Training Fees	0	36,149
Admin Consultancy Fees	26,700	45,572
	26,700	81,722

7 Fixed Asset					
Asset	Opening Bal	Additions	Disposals	31/12/17	31/12/16
Land & Building	-	-	-	-	-
Plant & Equipment (office)	338,778	-	-	338,788	338,778
Furniture & Fittings	158,222	-	-	158,222	158,222
Motor Vehicle	384,840	-	-	384,840	384,840
Total	881,840	-	-	881,850	881,840



PAPUA NEW GUINEA