

Chapter Two AUDIT OPERATIONS

The Office is structured to fulfill its audit mandate through its three operational branches headed by First Assistant Auditors-General who report to the Deputy Auditor-General. The performance of the operational branches is summarised below.

NATIONAL GOVERNMENT DEPARTMENT AUDIT BRANCH

The National Government Department Audit Branch is responsible for the audit of Public Accounts of Papua New Guinea and the accounts and records of all National Government Departments and agencies. The Branch is responsible for preparing reports to the National Parliament on the control of, and on transactions with or concerning, the public moneys and properties of the State.

In 2006 and 2007, the Branch had a total of fifty eight (58) government audit portfolios, including the thirty three (33) Government Departments, to audit. As these entities were not required to submit financial statements, the audits focused out on the entities' accounts and records. The audits in 2006 and 2007 were of the 2004 and 2005 financial years.

In terms of materiality of audit portfolios, budget appropriations of these entities range from two million kina for a small government department or agency to 200 million kina for a large department. In aggregate, the budget appropriations for the national departments were 1.6 billion kina.

The table below shows the total audits undertaken by the Branch during the period compared with the previous year.

Table 1. Audits undertaken in 2006 and 2007 compared with previous years

	Audit mandate	2007	2006	2005	2004
National Departments	33	18	27	33	33
Other audits	25	3	3	3	3
Public Accounts	1	1	1	1	1

The reduction in the number of audits carried out in 2006 and 2007 compared with 2004 and 2005 was a strategy designed to address the issue of an inadequate number of audit staff, and was based on a risk management approach to focus on higher risk departments and agencies, and for the audit of controls and governance to become an essential part of all audits.

4 Other audits include those of trust accounts, provincial treasury offices, and accountability issue areas such as miscellaneous expenditure in the Trust Fund Suspense Account 2 and a special audit of the land information systems in the Department of land and Physical Planning.

5 The audit of the Public Accounts consists of 11 individual statements and 13 subsidiary accounts.

Out of the 33 entities required to be audited, the AGO undertook audits of 28 Departments in 2006 and 18 Departments in 2007. These departments were selected for audit as they were considered by the AGO to be high risk because of their high revenue, expenditure, and significance. These agencies were as follows:

Table 2. Departments audited in 2006 and 2007

Department	2007	2006
Finance	√	√
Treasury	√	√
National Planning	√	√
Office of Rural Development	√	√
Internal Revenue Commission	√	√
Police	√	√
National Judiciary Staff Services	√	√
Attorney-General	√	√
National Parliament	√	√
Corrective Institutional Service	√	√
Works and Implementation	√	√
Petroleum and Energy	√	√
Health	√	√
Mining	√	√
Transport	√	√
Electoral Commission	√	√
Prime Minister and National Executive Council	√	√
Education	√	√
Governor-General		√
Magisterial Services		√
Labour and Employment		√
Provincial and Local-Level Government Affairs		√
Foreign Affairs		√
Environment and Conservation		√
Agriculture and Livestock		√
Public Service Commission		√
Commerce and Industry		√

The other Departments, except for the Department of Defence, were considered to be low risk and would be audited in the future on a rotational basis depending on resource availability. The audits of the Department of Defence, which were a number of years in arrears, were conducted in 2008 as part of a special audit assignment.

The performance of the Branch for the period is highlighted not only in terms of audits completed but also other outputs such as number of management letters issued, critical paragraphs and annual reports. Other measurements include the number of meetings, seminars or workshops attended.

By the end of the 2006 and 2007, the actual outputs compared with the planned ones were as follows:

Table 3. Outputs compared

Year	2007		2006	
	Planned	Actual	Planned	Actual
Nature of Outputs				
Number of compliance audits done	22	18	30	27
Number of governance & systems audit carried	22	18	30	27
Number of audits selected based on risk potential	22	18	30	27
Internal system improvements carried out	2	2	1	1

Auditor-General's Reports Part I and Part II

The Branch is responsible for the preparation of two annual Auditor-General's reports – Part I reports on the financial statement audit of the Public Accounts of PNG and Part II reports on the audits of control environment in the National Government Departments.

The Table below shows the number of Part I and Part II reports that were produced and tabled in Parliament in 2006 and 2007. There were a number of paragraphs in the reports, which covered the 2004 and 2005 reporting years, that were critical of the financial management of the National Government Departments and of the Public Account.

Table 4. Part I and Part II Reports

Annual Reports	2007 (covering 2005 reporting year)		2006 (covering 2004 reporting year)	
	Planned	Actual	Planned	Actual
Part I	1	1	1	1
Part II	1	1	1	1
Number of Critical Paragraphs	56	56	56	56

As a result of recommendations in our audit of the Public Accounts for 2005, the Department of Finance made improvements to the form and content of the Public Accounts Financial Statements. I also acknowledged on a number of occasions that I considered that the working relationship between the Department of Finance and my Office improved in 2006 and 2007 through an increased understanding and appreciation of each others' work.

In 2006, the Branch embarked on the following activities to bring about change to the audit process:

- a more in-depth audit of public accounts of PNG; this resulted in an increase not only in the number of qualifications but also in the substance of audit findings; and
- an audit approach that focuses on risk, the control framework and corporate governance within departments and agencies.

The new approach placed a priority on clearing the backlog of audits, which made it possible for the Branch to plan for the 2008 audit cycle using current financial information.

Special audit

In 2006, the Branch was responsible for managing a special audit of the land tenure system and the Management Information System in the Department of Lands and Physical Planning. The audit highlighted significant inadequacies in the manner the Department managed its systems. As a result of the audit report findings, a Government Task Force on Land Administration was established to correct the weaknesses identified; at the time of writing this report, most of the audit recommendations had been addressed.

PROVINCIAL AND LOCAL LEVEL GOVERNMENT AUDIT BRANCH

The Organic Law on Provincial Governments and Local-Level Governments of 1995 extends the audit mandate to cover Provincial Governments and Local-Level Governments.

Section 113 of the Organic Law on Provincial Governments and Local-Level Governments provides for the Auditor-General's role on the control and audit of Provincial Governments and Local Level Governments. Section 113 requires the Auditor-General to establish a Provincial Audit Service and appoint a Provincial Auditor and additional officers in each Province to maintain an effective and efficient audit service within a province, and extend the audits to the accounts, moneys and properties of Provincial Governments and Local-Level Governments, including their subsidiary bodies.

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

The Branch audit mandate and the number of audits undertaken in 2007 are shown in the table below.

Table 5. Provincial and Local-Level Government audits

	Audit mandate	Audits in 2007
Provincial Governments	19	29
Local Level Governments	303	3
Hospital Boards	19	10
Business Arms	53	3
Development Authorities	8	1
Trust Funds	2	-

The reason for the large number of audits of Provincial Governments conducted in 2007 above the audit mandate was to address a backlog of audits. This meant that in some Provinces, audits of multiple years were conducted.

Auditor-General's Part III Report

The Branch is responsible for the preparation of the Auditor-General's Part III Report on the audit of the Provincial Governments and Local-Level Governments, and other audits in the Provinces.

The Table below shows that a Part III report, which covered the 2006-2007 audit cycle, was produced and tabled in Parliament in 2007.

Table 6 Part III Report

	2007 (covering 2006-2007 audit cycle)	
	Planned	Actual
Annual Reports		
Provincial Governments	27	13
Local-Level Governments	26	2
Hospitals	25	10
Business Arms/Trust Funds/ Authorities	-	1

In 2006 and 2007 the branch managed the special audit of the Central City Development Project. The audit, which was carried out following the inquiry of the Public Accounts Committee, was tabled in the Parliament in 2008.

STATUTORY BODIES and SPECIAL AUDITS BRANCH

The Statutory Bodies and Special Audits Branch is mandated under Section 8 of the Audit Act to carry out the audits of the accounts and records of all Public Bodies to ascertain whether:

- the financial statements are based on proper accounts and records; and
- these statements are in agreement with and show fairly the state of affairs of the public bodies for the year and the results of their financial operations as at the end of the year.

The Branch is also responsible for the audit of National Government Owned Companies and their Subsidiaries in accordance with their enabling legislation. Further, the Branch carries out audits and reviews of government operations of programs including donor funded projects and other activities based on the Auditor-General's discretion in the exercise of his powers and functions under Section 3 and 4 of the Audit Act.

The Auditor-General outsources some audits to private accounting firms to assist meet the audit workload. The audits outsourced in 2006 and 2007 included Air Niugini Limited, PNG Power Limited, Telikom (PNG) Limited, Mineral Resources Development Company, PNG Harbours Limited and the National Broadcasting Corporation. When the staffing situation improves, the AGO plans to conduct these audits in-house rather than relying on the private sector.

Performance summary

In summary, the performance of the Branch for the years 2006 and 2007 compared with previous years are shown in the table below.

Table 7. Audits of Public Bodies

	2007	2006	2005	2004
Audit Mandate	116	130	105	108
Total number of audits planned	202	127	137	135
Total number of financial statements to be audited	347	390	421	455
Number of reports issued	92	120	139	135
Audits in progress	46	46	77	124
Financial statements submitted for audit	21	43	40	39
Financial statements not submitted by entities	131	97	165	157
Problem audits	57	84	-	-
Total	347	390	421	455

The table above shows that the audit mandate figures varied over the years as a result of the establishment of new entities or the cessation of existing one. The table also shows that the total number of financial statements to be audited and the number of audits planned is greater than the audit mandate as some entities have more than one year's financial statements to be audited.

The table also shows that comparatively the number of reports increased in the prior years and decreased at the same pace in the years being reported on. This has been caused by the inadequacy of resources discussed in Chapter One and the departure of staff members to the private sector.

The category of problem audits in the table denotes entities which I have not been able to audit. These include dormant entities, that is entities that have ceased to exist and information cannot be obtained for an audit to be conducted, and audits in arrears where entities have not

submitted financial statements to be audited. I have used my discretion, as provided for in the Audit Act, and dispensed with some of these audits.

In relation to audits in arrears, under Section 63 of the PF(M) Act, it is mandatory for Public Bodies to prepare and furnish audited financial statements to the Minister responsible before 30 June each year. Because the financial statements are required to be audited before they are presented to the Minister, they have to be submitted to me before 31 March for 30 June deadline to be met.

The number of audits in arrears has declined in the last few years and most of the audits of major Public Bodies and National Government Owned Companies are current. The Part IV reports for 2006 and 2007 will provide the detail on which audits are in arrears.

Auditor-General's Reports Part IV Report

The Branch is responsible for the preparation of the Part IV Auditor-General's annual report on the audits of public bodies.

In 2006 and 2007, the Branch prepared and tabled Part IV reports for 2004 and 2005 reporting years.

Special audits

The Branch is also responsible for the conduct of special audits. These audits relate to development projects that are co-funded by the State and International Donors. Other special projects are undertaken as approved by the Auditor-General. The reports and audit opinions are issued to the Department of Treasury and the respective Donor Agency.

The audits mandated under Donor and State co-funded Development Projects and other Government approved projects in 2006 and 2007 compared with previous years is shown in Table 9 below

Table 8. Special Audit reports

Donor	Project	Years			
		2007	2006	2005	2004
Asian Development Bank	Development Projects	9	9	10	10
World Bank	Development Project	2	2	-	-
Health Sector Improvement Program	Health Sector Improvement	1	1	1	1
Departmental Agencies	Performance Governance Review	6	6		