



Report of the Auditor-General - 2007

on the Public Accounts and the control of and on transactions
with or concerning the public moneys and property of Papua New Guinea

Part IV

- Public Bodies and their Subsidiaries
- National Government Owned Companies
- National Government Shareholdings in Other Companies



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Date: **31st March, 2009**

The Honourable Jeffery Nape, MP

The Speaker of National Parliament

Parliament House

WAIGANI

National Capital District

Oure Reference:

Action Officer:

Designation:

Your Reference:

Date:

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 30 September, 2008 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 regarding 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.

Yours sincerely,

GEORGE W. SULLIMANN

Auditor-General of Papua New Guinea

REPORT OF THE AUDITOR-GENERAL - 2007

PART IV

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1. GENERAL

1.1 FOREWORD

My Annual Report to the National Parliament for the 2006 financial year is presented in four Parts. Part I deals with the Public Accounts of Papua New Guinea. 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 (Part IV) is divided into four sections. Section A deals with Public Bodies and their subsidiaries, Section B deals with National Government owned companies and Section C deals with Companies in which the National Government has shareholdings. 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 the Management of the respective entities and to the responsible Ministers.

1.2 AUTHORITY TO AUDIT

1.2.1 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, insofar as they relate to, or consist of, or are derived from public moneys or property of Papua New Guinea.

1.2.2 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 *National Constitution*. This Act was amended in 1995, and the relevant provisions of the amended Act are explained below.

1.2.2(a) Auditing and Reporting Requirements

In *Section 8*, Sub-sections 2 and 4 of the 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*.

1.2.2(b) 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.

1.2.2(c) Audit Opinion on Financial Statements

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

- (i) whether the financial statements are based on proper accounts and records;
- (ii) whether the financial statements are in agreement with those accounts and records; and
- (iii) whether they show fairly the financial operations for the period which they cover and the state of affairs at the end of that period.

1.2.3 Public Finances (Management) Act, 1995

The submission of the financial statements of the public bodies for audit is required under Section 63(4) of the *Public Finances (Management) Act, 1995*.

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 preceding, 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.

1.2.4 Companies Act, 1997

I am required to audit National Government owned companies and subsidiary companies under the provisions of the *Companies Act, 1997*.

Though these companies are registered under the Companies Act, my responsibility to audit them is by virtue of Sections 48 and 63 of the *Public Finances (Management) Act* and Section 3 of the *Audit Act*.

1.3 AUDIT OF PUBLIC BODIES

1.3.1 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 in the full scale information systems audit and performance audits.

The full scope of my audit responsibility in respect of public bodies cover the statutory bodies and their subsidiaries, government owned companies and their subsidiaries, and the companies in which the government has minority interest.

1.3.2 Audit Objectives

The objects of the audit of public bodies are to ascertain whether the financial statements are based on proper accounts and records, and whether they are in agreement therewith 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.

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 paragraph 63 which covers the National Government owned companies.

1.3.3 Reporting Framework

My audits are conducted in accordance with 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 International Accounting Standards and the Statutory requirements.

1.4 APPOINTMENT AND USE OF AUTHORISED AUDITORS

Section 8(5) of the *Audit Act, 1989 (as amended)*, 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 Government owned Companies.

2007 AUDITOR-GENERAL'S REPORT - PART IV

1.5 EXECUTIVE SUMMARY

1.5.1 Overview

1. The economic and social advancement of all Papua New Guineans is the overriding goal of the Government's Medium Term Development Strategy (MTDS). In line with this objective, the Government has taken measures to reform the Public Sector with the view to ensuring that the Country's resources are used in the most economical, efficient and effective manner for effective service delivery. One such initiative is the introduction of the Public Finances Management Improvement Program (FMIP) which is aimed at accountability, good governance, transparency and prudent financial management in the Public Sector.
2. This initiative by the Government also affirms the vision of my Office of providing independent and quality audit assurance over the financial management of government and public entities through my audit of these entities financial statements. The audit of these financial statements is to ensure that:
 - (a) there are no fraudulent activities;
 - (b) financial transactions are free of material errors;
 - (c) there is transparency in all financial dealings;
 - (d) adequate system of internal controls are in operation;
 - (e) proper accounts and records are maintained;
 - (f) assets are properly maintained and safeguarded; and
 - (g) qualified and experienced accounting staff are employed.
3. My reports to the Parliament over the years have repeatedly highlighted my concerns over the poor state of the financial management structure in most public entities of which their statements are subject to my audit and inspection.
4. Poor accounting records, weaknesses in internal controls and management information systems, non compliance with legislative requirements and International Financial Reporting Standards, and lack of concern on the part of sizeable number of Chief Executive Officers regarding financial management are some of my observations. Although, there appears to be some slight improvement, of late, the total concept of effective, prudent and efficient financial management is yet to be absorbed by many Chief Executive Officers.
5. This Report is not different from my prior years Reports in that it continues to make representation about serious inadequacies in financial management and corporate governance in most public entities.

1.5.2 KEY FINDINGS

1. Non-Submission of Financial Statements

As stated in paragraph 1.2.3 of this Report, Section 63(4) of the *Public Finances (Management) Act, 1995*, 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 preceding, together with financial statements in respect of that year duly audited by me for tabling in Parliament.

This means that these financial statements should be submitted to my Office timely and well before 30 June each year for my audit and inspection.

This legislative requirement, despite its mandatory nature has not been strictly adhered to by the respective public entities management and authorities concerned. Consequently, out of 99 public entities (excluding those audits that are done by private auditors) only 32 entities submitted their financial statements for the fiscal year 2007 for my audit and inspection up to the time of preparing this Report while 67 entities have failed to comply with this provision. Paragraph 85.5 of this Report provides the details.

The failure of public entities to comply with this legislative requirement results in:

- (a) my Office not reporting adequately on timely accountability of public resources;
- (b) build up of audits in arrears; and
- (c) non-tabling of Annual Reports on performance and management by public entities to the Parliament.

2. Responsibility for Submission of Financial Statements

As reported in paragraph 85.2 of this Report, it is the responsibility of the management of auditee organizations to prepare and present 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.

In order to achieve proper accountability of government resources and good governance in the Public Sector, my Office recommends;

- i) a vigorous enforcement of the provisions of Section 63 of the *Public Finances (Management) Act, 1995*; and
- ii) a legislative requirement to appraise and make the renewal of contracts of Chief Executive Officers subject to submission of financial statements and prudent financial management.

However, I believe the recommendations are for short term measure since I am also mindful that the impact of the measures would be self defeating. This imply that relevant provisions of the *Public Finances (Management) Act, 1995* needs to be amended to give power to the relevant Ministers or National Executive Council (NEC) to sanction the Head (CEO) and, or the members of the controlling authority.

3. Impact of other Legislations on my Constitutional Responsibility

The 2007 Report also draws attention to the impact some legislative changes have had on my Constitutional responsibility. These legislative changes, although well intentioned, have resulted in the exclusion of my Office as the external State Auditor, from the audit of these organizations. Consequently, my Office is not in a position to present a report on these organizations to the Parliament, hence, the exclusion of these entities from my audit Port-folios. Paragraphs 8, 8A to 8C and 19, 19A to 19G and 69,69A to 69D gives further details.

4. Non-Compliance of the Salaries and Conditions Monitoring Committee Act (SCMC)

The Salaries and Conditions Monitoring Committee (SCMC) was established to provide 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.

5. Lack of basic Accounting Records and inadequate internal control system

Serious deficiencies in accounting and record keeping were noted in many of the entities audited thus limiting the scope of my audit procedures. These weaknesses include;

1. Bank reconciliation statements not prepared timely or not at all;
2. Transactions did not have supporting documentation;
3. Fixed assets registers not properly kept or maintained;
4. Physical stock-takes not carried out;
5. Acquisitions and disposals without proper procedures being followed;
6. Failure to comply with International Financial Reporting Standards in the preparation of the financial statements;
7. Travel and other allowances not fully acquitted;
8. Internal Revenue Commissions regulations on payment of taxes not followed;
9. Entities paying housing allowances, Board members allowances without tax but allowing officers to collect these allowances through their companies;
10. Accounting, administrative and procedural manuals not available;
11. Public Servants serving on Statutory Board receiving Board allowances against regulations;
12. Poor resourcing and in-effective Internal Audit functions; and
13. In-effective budget controls.

These limitations on the scope of my audit resulted in my issuing Disclaimed Audit Opinions in respect of many of the reports issued during the year.

6. Types of Audit Opinions issued

For 2007-2008 Audit Cycle, my Office issued **92 Audit Opinions**. Out of this, **Clear Opinions** were **23**, **Qualified Opinions** were **19**, and **Disclaimed Opinions** were **50**. Refer to **Schedule 'G'** of this Report.

The number of Disclaimed Audit Opinions is a reflection of the poor state of accounting and record keeping in a number of our public bodies.

7. Recommendations

My Office desires to be able to report to the Parliament in future that proper accounting records and adequate internal control systems exist in all public entities subject to my audit. For that to be achieved there should be;

- ▶ Timely submission of financial statements;
- ▶ Improved record keeping and documentation;
- ▶ Provision of quality information;
- ▶ Effective implementation of internal control systems; and
- ▶ Appointment of qualified and experienced accountants.

8. The Structure of the Report

This Report is structured in such a way that it provides;

- (a) The Legislative frame work for each organisation;
- (b) The functions of the organizations;
- (c) The summary of the financial statements (if there is any); and
- (d) The status of financial statements.

