



Report of the Auditor-General - 2008

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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30 September, 2009

The Honourable Jeffery Nape, MP
The Speaker of 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 30 September, 2009 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 the audits of which have been in arrears.

Yours sincerely,



GEORGE W. SULLIMANN
Auditor-General of Papua New Guinea

REPORT OF THE AUDITOR-GENERAL - 2008

PART IV

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1. GENERAL

1.1 FOREWORD

My Annual Report to the National Parliament for the 2008 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 69 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.

2008 AUDITOR-GENERAL'S REPORT - PART IV

1.5 EXECUTIVE SUMMARY

1.5.1 Report Coverage

1. This Report covers the audit reports issued by my Office during the period July 2008 to June 2009 (2008/2009 Audit Cycle) for Public Bodies and their Subsidiaries, Government Owned Companies and National Government's shareholdings in Other Companies.

In 2008, there were **90 entities** subject to audit, consisting of **69 Public Bodies** and **13 National Government Owned Companies** and **8 Companies** in which the National Government does not have majority shareholdings. The Report covers the audits of these entities' financial statements for a number of years, and not just of 2008.

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 poor state of the financial management structure in most public entities whose statements are subject to my audit and inspection.

3. Submission of current year Financial Statements

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.

Despite this requirement, **Table 1** and **Schedule 'F'** show that **46 entities** had not submitted their **2008 financial statements** to be audited and overall some **101 financial statements for 2008** and prior years had not been submitted for audit. The details of the audits in arrears and those entities whose financial statements have been outstanding for a number of years are shown in **Schedule 'B'**.

Table 1
STATUS OF AUDITS DURING THE YEAR 2008 / 2009

Year	Audits Completed	Audits Substantially Completed	Audits in Progress	Audits to commence shortly	Financial Statements not submitted	Total 2008/2009	Total 2007/2008
2008	9	6	12	9	46	82	-
2007	20	16	7	8	21	72	99
2006	14	9	5	4	9	41	93
2005	9	2	4	2	7	24	64
2004	4	1	4	1	6	16	40
2003	2	-	3	1	4	10	27
2002	-	2	1	-	4	7	23
2001	1	1	-	-	2	4	14
2000	1	1	-	-	1	3	7
1999	-	1	-	-	1	2	3
1998	-	1	-	-	-	1	1
TOTAL	60	40	36	25	101	262	371

Table 1 also shows that of the **60 audits completed**, only **9 were of the current year (2008)**, and that **18 current year's audits** were substantially completed or were in progress. A further **9 audits** were to commence shortly. The list of these entities is at **Schedule 'A' (i), (ii), (iii) and (iv)**.

4. Poor Financial Management

Poor accounting records, weaknesses in internal controls and management information systems, non-compliance with legislative requirements and International Financial Reporting Standards, and in my view, a lack of concern on the part of a large number of Chief Executive Officers about the financial management in their entities are some of my observations. In my view, the concept of effective, prudent and efficient finance management is yet to be absorbed by many Chief Executive Officers.

5. Type of Audit Opinions Issued

In the period covered by the audit, **sixty (60) audit reports and audit opinions were issued**. Of the **sixty (60) audit opinions issued, fifteen (15) were unqualified, fifteen (15) were qualified, twenty-eight (28) were Disclaimer Opinions and two (2) were Adverse Opinions**. (Schedule 'G').

Of the **fifteen (15) unqualified opinions issued**, only six (6) were for 2008 as follows:

- ☛ Bank of Papua New Guinea
- ☛ Coffee Industry Corporation Limited and its Subsidiaries
- ☛ Patana No. 61 Limited
- ☛ Coffee Industry Fund
- ☛ Independence Fellowship Trust
- ☛ Post PNG Limited

Of the qualified opinions, none were for 2008 but for prior years.

The number of Disclaimer Audit Opinions issued are reflection of the poor state of accounting and record keeping in a number of public bodies.

The Adverse Opinions were given to one entity because of poor record keeping and internal control weaknesses, and the second was for inappropriate accounting treatment.

The list of entities and the type of audit opinions issued during the period July 2008 to June 2009 are provided in **Schedule 'G'**.

1.5.2 Key Findings

The key findings from the audits centred around on the non submission of financial statements, the impact of other legislation on my Constitutional responsibilities, non compliance with the 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:

1. Non-Submission of Financial Statements

As stated earlier, 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 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 well before 30 June each year for my audit and inspection.

This legislative requirement, has not been strictly adhered to by all respective public entities' managements. Consequently, out of **82 public entities** (excluding those whose audits are done by private auditors) only **36 entities** submitted their financial statements for 2008 for my audit and inspection up to the time of preparing this Report. **Forty-six (46) entities** failed to comply with this provision. **Paragraph 85.5** of this Report provides details.

As I have stated in previous years' reports, the failure of public entities to comply with this legislative requirement results in:

- ▶ *My Office not reporting adequately on ensuring timely accountability of public resources;*
- ▶ *A build up of audits in arrears; and*
- ▶ *The non-tabling of Annual Reports on performance and management by public entities to the Parliament.*

2. 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.

3. My Office recommends:

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

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

4. Reasons for non-submission of Financial Statements

There are number of reasons for the audit to go into arrears. The main reasons are:

- a) Some auditee organisations do not have adequate staff and/or resources to enable them to compile the financial statements. A large number of medium to small entities do not have sufficient funds to attract qualified and experienced accounting staff.
 - b) A lack of understanding among entities as to their responsibility to submit the financial statements on a timely basis.
 - c) In some extreme cases, the entities' Internal Control Systems are so weak that no proper accounts and records are maintained to enable them to prepare financial statements.
 - d) Accounting staff employed in some entities lack appropriate skill, knowledge and experience to maintain proper records and prepare financial statements.
5. Details of audits that have gone into arrears due to non submission of financial statements are given below in **Table 2** and **Schedule 'C'**.

Table 2

No.	Entity	Year in Arrears	Audits in Arrears 2007 & Prior Years
1	North Fly Highway Development Co. Ltd	7	2001-2007
2	National Training Council	6	2002-2007
3	PNG Sports Commission	6	2002-2007
4	Tabudubu Limited	5	2003-2007
5	Public Curator of Papua New Guinea	4	2004-2007
6	Unisearch (PNG) Limited	4	2004-2007
7	Motu Koitabu Council	3	2005-2007
8	POM City Development Enterprises Ltd	2	2006-2007
9	Unitech Development Consultancy Ltd	2	2006-2007
10	Kalang Advertising Limited	1	2007
11	Livestock Development Corporation	1	2007
12	National Broadcasting Corporation	1	2007
13	National Economics & Fiscal Commission	1	2007
14	National Gaming Control Board	1	2007
15	National Volunteer Service	1	2007

16	National Youth Commission	1	2007
17	PNG Institute of Medical Research	1	2007
18	PNG Maritime College	1	2007
19	PNG University of Technology	1	2007
20	University of Goroka	1	2007
21	University of Papua New Guinea	1	2007

6. My Arrears Reduction Strategies

During the last Cycle, I have taken steps to remind various entities of their responsibilities to submit the financial statements on a timely basis which include but not limited to the following:

- (i) Forwarding reminder letters to entities on a regular basis until the submission of the financials statements.
- (ii) Copies of these reminder letters were forwarded to the Public Accounts Committee and to the Secretary for Finance for their necessary action.
- (iii) My officers have visited various entities and had meeting with the Chief Executive Officers regarding non-submission of financial statements and drew their attention to the responsibility under *Public Finance (Management) Act* and resultant breach of *Public Finance (Management) Act*.
- (iv) My intention is to encourage entities to submit the financial statements voluntarily; and as such, I have not embarked on summoning any entities to date, however, if required, this strategy will be exercised.
- (v) I also wish to express my gratitude to the Public Accounts Committee for the significant contribution made in insisting on the entities to submit the financial statements based on (ii) above.

7. Impact of other Legislations on my Constitutional Responsibility

The 2008 Report also draws attention to the impact some legislative changes have had on my Constitutional responsibility. These legislative changes have resulted in the exclusion of my Office as the external State Auditor, from the audit of the following organizations.

<u>Entity</u>	<u>Paragraph No.</u>
<i>National Development Bank</i>	<i>65</i>
<i>Small Holders Rural Project Company Limited</i>	<i>65A</i>
<i>Stret Pasin Stoa Companies</i>	<i>65B</i>

Consequently, my Office is not in a position to present a report on these organizations, which have been excluded from my audit portfolios, to the Parliament.

8. **Non-Compliance of the Salaries and Conditions Monitoring Committee Act (SCMC), 1988**

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. Consequently, they have contravened Section (3) of the *Salaries and Conditions Monitoring Committee Act, (SCMC) 1988* which stipulates:

- “(1) *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*
- (2) *Where by 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.”*

9. **Lack of basic Accounting Records and inadequate Internal Control System**

I noted serious deficiencies in accounting and record keeping and maintenance of internal controls when auditing many of the entities. 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 assets registers not being properly kept or maintained;
- ☞ No consistent and proper valuation of assets;
- ☞ Physical 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 Commissions regulations on payment of taxes not being followed;
- ☞ Entities paying housing allowances and Board members allowances without tax but allowing officers to collect these allowances through their companies;
- ☞ Accounting, administrative and procedural manuals not being available;
- ☞ Public Servants serving on Statutory Board receiving Board allowances contrary to regulations.
- ☞ In-effective Internal audit functions; and
- ☞ 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, as shown in **Schedule ‘G’**.

10. Recommendations for Improvement

Consistent with comments in previous years' Reports, I wish 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, I believe that Chief Executive Officers should exercise leadership that provides an environment where there is:

- ▶ Timely submission of financial statements;
- ▶ Improved record keeping and documentation;
- ▶ Provision of quality information;
- ▶ Effective implementation of internal control systems; and
- ▶ Entity financial management that is carried out by qualified and experienced accountants.

11. Improvement Strategies

In my view, for improvement to occur:

- ▶ Chief Executive Officers must employ trained 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.
- ▶ Parliament must increase its reviews of the management of public entities and provide Chief Executive Officers with the incentives to improve their management structures.

12. The 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.

For each of the entities concerned the report considers:

- (a) *The Legislative frame work for each organisation;*
- (b) *The functions of the organizations;*
- (c) *The audit opinion expressed on the financial statements (where applicable); and*
- (d) *The status of financial statements.*

Note: The audited financial statements of the entities have not been reproduced in this Annual Report. This is a change from our previous reports to Parliament with the view to condense the size of the Report. However, the financials statements can be obtained either by contacting my Office and/or the entity concerned.