

**SECTION B**

**NATIONAL GOVERNMENT  
OWNED COMPANIES**



## 60. FOREWORD

This Section of my Report deals with Companies in which the Government of Papua New Guinea holds more than 50% of the Issued Share Capital. On 26 January 1983, the National Executive Council's Decision No. 12/83 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 me through *Section 3 of the Audit (Amendment) Act, 1995*.

The auditing and reporting requirements of these companies are stipulated in the *Companies Act, 1997*.

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 vested with responsibility for the public body, and 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 National Executive Council (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 Objects of the Company**

The principal objects 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;
- to 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;
- to carry, collect, receive, load, unload, store, consign, distribute, transfer and deliver property of every description by any mode of transportation; and
- to 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 AND RECOMMENDATIONS**

#### **61.2.1 Comments on Financial Statements**

In accordance with the provisions of the *Companies Act, 1997*, my report on the financial statements of Air Niugini Limited for the year ended 31 December, 2007 was issued on 1 December, 2008. The report contained the following qualifications:

## “QUALIFICATIONS

### *Departure from International Financial Reporting Standards*

#### *Related Party Transactions*

International Accounting Standard (IAS) 24 “*Related Party Disclosures*” requires disclosure of related parties and the nature and information about related parties. Related parties include entities which were controlled or significantly influenced by the Company or can control or significantly influence the Company, as well as Directors, Director-related entities, key management personnel and close members of a family of an individual. Although Note 21 includes general disclosure about related party relationships and transactions, not all the disclosures of relationships and transactions required by *International Accounting Standard (IAS) 24* had been made in the financial statements.

#### **Qualified Audit Opinion**

In my opinion, except for the effects on the financial statements of a departure from International Financial Reporting Standards, as described in the qualification paragraph, and the effects of such adjustments, if any, as might have been determined to be necessary had the departure not existed:

- (a) the financial statements of Air Niugini Limited (the Company):
  - (i) comply with generally accepted accounting practice; and
  - (ii) give a true and fair view of the financial position of the Company as at 31 December, 2007 and the results of its operations, changes in equity and cash flows for the year then ended.
- (b) proper accounting records and other records have been kept in accordance with the provisions of the *Companies Act, 1997*; and
- (c) I have obtained all the information and explanations that I required.”

#### **61.2.2 Audit Observations Reported to the Ministers**

My report to the Ministers under Section 8(2) of the *Audit Act, 1989 (as amended)*, on the inspection and audit of accounts and records for the year ended 31 December, 2007 was issued on 1 December, 2008. The report contained the following observations in addition to the comments made in paragraph 61.3.1 above.

##### **1. Internal Control Environment**

During the course of the audit numerous errors were identified which required adjustments to the financial statements. The extent of these errors indicated that the control environment appeared to have deteriorated since the last audit. Unless these matters are addressed there remains a high risk of material error, irregularities or fraud occurring.

I recommended Management that appropriate level of resources is deployed in improving the finance function to address the myriad housekeeping matters that seemed to persist.

**2. Analysis of Unearned Revenue**

The revenue system (FASTRAC) did not have a reporting module. Effective analysis of the deferred revenue by route and ticket sale date could not be performed. Audit was subsequently provided with the data extracts from the revenue system but not in a report format.

As a result, Management could not efficiently analyse the deferred revenue under the current system. The inability to produce reports also resulted in delays in the audit process.

I recommended that an adequate reporting module be implemented within the revenue system for unearned revenue so that necessary reports could be produced for Management.

**3. Fixed Assets Accounts Reconciliation/Fixed Assets Register Maintenance**

There was no fixed assets account reconciliations prepared for the year under review and the fixed asset register was not updated and maintained on a timely basis.

Although the reconciliation and the fixed asset register was provided subsequently to audit, I recommended Management that the fixed asset register be updated on a regular basis and that the register is reconciled to the general ledger on a monthly basis.

**4. Reconciliation of Interline Taxes Account**

The taxes on ticket sales were not completely reconciled. There were a significant number of taxes and charges that were levied, but posted to one general ledger account. The account was not reconciled at the time of audit with the revenue system (FASTRAC) but subsequently completed following the audit query. The reconciliation and analysis of the taxes on ticket sales was delayed due to the inability of the revenue system to produce the required reports.

In addition to the improvement of the reporting functionality with the revenue system, I recommended Management that the taxes on ticket sales be reconciled to the revenue system on a monthly basis.

**5. Accrued Liabilities Reconciliation Process**

During the course of audit, a large number of errors were noted in the accrued liabilities account. This was caused by duplicate processing and inadequate review.

The responsibility for the reconciliation of the accrued liabilities accounts should be reassessed and communicated to staff in order to avoid duplicate processing of invoices. All accounts should be reviewed on a monthly basis by a responsible finance officer to ensure that there were no errors or duplication of payments. Unless a more effective control was put in place, there would be a high risk of double payments.

I advised Management to take necessary action by reviewing the accrued liabilities to ensure that controls were tightened to prevent possible duplication of payments.

### **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, 2008 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, 1997*. The share capital is wholly owned by the National Government.

#### **62.1.2 Activities of the Corporation**

The main activities of the Company 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 audit of the accounts and records and the examination of the financial statements of the Corporation for the year ended 31 December, 2006 was completed and the result were being evaluated.

The Corporation had not submitted its financial statements for the years ended 31 December, 2007 and 2008 for my inspection and audit. A letter requesting the submission of financial statements was forwarded to the Management on June 4, 2009 to remind them of their responsibilities to submit the financial statements on a timely basis under the *Public Finances (Management) Act, 1995*.

## **63. MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED**

### **63.1 INTRODUCTION**

The Mineral Resources Development Company Limited was incorporated under the *Companies Act*. The Company is wholly owned by the National Government.

The principal activity of the Company is to hold the Government's equity in mineral and petroleum development ventures within PNG. The Company also acquired the Government's 20% interest in Misima Mines Ltd.

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 Papua New Guinea in June 1992, converting the Government grant and the shareholders loan to equity.

### **63.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **63.2.1 Comments on Financial Statements**

In accordance with the provisions of the *Companies Act, 1997*, my report on the financial statements of Mineral Resources Development Company Limited for the year ended 31 December, 2007 was issued on 23 April, 2009. The report contained the following qualification:

#### **“QUALIFICATIONS**

##### **Fundamental uncertainty over ownership of shares in Oil Search Limited and Highlands Pacific Limited**

The financial statements include investments in Oil Search Limited (“OSL”) at K1,769,438,000 (2006: K1,437,177,000) and Highlands Pacific Limited (“HPL”) at K4,751,000 (2006: K12,700,000).

Following the merger of Orogen Minerals Limited and OSL, the Government of Papua New Guinea by National Gazette Number G125 dated 2 August, 2002, issued a Vesting Notice which effectively transferred MRDC's shares in OSL and HPL to the Independent Public Business Corporation (“IPBC”). Subsequently, a Gazette Notice (Number G105 dated 8 August, 2003) was issued reversing the references made in Gazette Number G125 to the vesting of shares in OSL and HPL with the IPBC. The notice required the alterations to be effective from 20 June, 2002.

According to the share register of Oil Search Limited (OSL), these investments are registered in the name of IPBC. However, the share register of Highlands Pacific Limited (HPL) still has these shares as registered in the name of MRDC. MRDC has maintained that it is the legal owner of the shares in both OSL and HPL. The evidence available to me is inconclusive and as a result, I am unable to satisfactorily confirm MRDC's ownership of the shares in both OSL and HPL.

The value of the investments in OSL and HPL is deemed to be so material and pervasive to the presentation of the balance sheet so as to render it meaningless if it is determined that the OSL and HPL shares are owned by IPBC. Any consequent adjustments to the financial statements will have a material effect on the financial position of the Company.

#### **Adverse Audit Opinion**

In my opinion, because of the material impact on the financial statements as discussed in the qualification paragraphs in relation to the ownership of investments in Oil Search Limited and Highlands Pacific Limited the accompanying financial statements do not give a true and fair view of the financial position of the Company as at 31 December, 2007, the result of its operations and cash flows for the year then ended.

#### **Report on the other legal and regulatory requirements.**

The *Papua New Guinea Companies Act, 1997* requires that in carrying out my audit I consider and report to you on the following matters. I confirm that:

- i) in my opinion proper accounting records have been kept by the company, in so far as it appears from my examination of those records;
- ii) I have obtained all the information and explanations I have required; and
- iii) in conducting my audit I followed applicable independence requirements of CPA Papua New Guinea.”

#### **63.2.2 Audit Observations Reported to the Ministers**

My report to the Ministers in accordance with Section 8(2) of *Audit Act, 1989 (as amended)*, on the inspection and audit of the accounts and records of Mineral Resources Development Company Limited for the year ended 31 December, 2007 was issued on 23 April, 2009. The report contained the following significant matters in addition to the comments stated in paragraph 63.2.1 above:

##### **1. Investments in Oil Search Limited and Highlands Pacific Limited**

In relation to my qualification on Investments in Oil Search Limited and Highlands Pacific Limited, I have recommended the Board of Directors to take appropriate action to resolve this uncertainty with the appropriate Government authorities. The Management advised me as follows:

*“The Board believes that the investment is in fact owned by Mineral Resources Development Corporation (MRDC) and has resolved to account for it as an asset in the Company’s balance sheet. Steps will be taken to resolve this issue with the relevant authorities however, it is Management’s view that with Petromin Holding Limited now in operation the shares would eventually be transferred to Petromin as it has been mandated to hold all State interests in mining and petroleum projects.”*

**2. Transfer of Eda Oil Limited to Petromin PNG Holdings Limited**

On 12 July 2007, through Ministerial Direction, pursuant to the powers conferred upon under *Section 7(2) of the Petromin PNG Holdings Limited Authorisation Act 2007 (Petromin Act)*, the Minister responsible for the administration of the *Petromin Act*, transferred all of the issued shares held by MRDC in its capacity as the nominee of the State, to Petromin PNG Holdings Limited (Petromin) for a consideration of K40 million.

Although, there have been no reference made in the Share Sale Agreement entered into between MRDC and Petromin as to the basis for determination of the K40 million consideration, MRDC Board applied the consideration of K40 million for settlement of long outstanding receivable balances from the State and Mineral Resources Lihir amounting to K6,457,636 and K15,542,364 respectively and additional gain of K18,000,000.

I recommended the Management that as a general policy, Management should ensure that all the future transfers/disposals are subject to robust independent valuation process. *The Management responded that the transfer was being made between two state entities and therefore in the Management's view this transaction does not qualify for a proper valuation.*

**3. Funds in Escrow Account with Gadens Lawyers**

I observed that the balance in the Escrow Fund account managed by Gadens Lawyers was K11.17 million. This Fund represented retention money in relation to the sale of 5% interest in Porgera Joint Venture by Mineral Resources Development Corporation (MRDC) in 1999. The money in the Escrow Fund has not yet been released by Oil Search Limited to Mineral Resources Development Corporation (MRDC).

The main reason for the delay in the release of the Fund is a claim by Mineral Resources Enga Limited (an entity managed by Mineral Resources Development Corporation) that it is entitled to a certain portion of the Funds held by the Escrow Agent.

I recommended Management to resolve the claim with Mineral Resources Enga Limited in order to secure the release of the Escrow Funds.

*The Management advised that negotiations were progressing between Mineral Resources Development Corporation (MRDC) and Mineral Resources Enga Limited for settlement of this claim. However, it has come to light that the amount claimed by Mineral Resources Enga Limited of K2.6 million (i.e. 50% of K5.2 million) had never been paid to MRDC by Internal Revenue Commission (IRC) but has been transferred to Oil Search subsequently.*

#### 4. Dividend Withholding Tax

The Company had received dividend income in the past and dividend withholding tax (WHT) had been withheld from these dividends. The withholding tax amounting to K3.4 million had been recorded as a receivable. In the normal course of events, a Company that has accumulated dividend withholding tax credits in this manner would utilise them by reducing the dividend withholding tax liability arising when it paid a dividend. However, as dividends paid to the State were not subject to dividend withholding tax, this mechanism was not available to the Company to allow it to utilise its dividend withholding tax credits.

The Company had made applications to the Internal Revenue Commission (“IRC”) to utilise the accumulated dividend withholding tax credits to reduce salary or wages tax and income tax liabilities. While Management had met with the Internal Revenue Commission (“IRC”) and Internal Revenue Commission (“IRC”) had verbally confirmed that they would allow the dividend withholding tax credits to be utilised in this manner, which does not appear to be the correct mechanism for utilising the credits provided by the *Income Tax Act, 1959* (“the Act”)

The Act appeared to contemplate the refunding of the dividend withholding tax credits to the tax exempt body that received the dividends, instead of the credits being available for use by the payer of the dividends. In this case, it would seem the Act contemplates the utilisation of the credits by the Company via the payment of a dividend to the State net of the 17% dividend withholding tax. The Company then made an application to the Internal Revenue Commission (“IRC”) for the dividend withholding tax to be paid to the State directly by the Internal Revenue Commission (“IRC”).

In this way, the dividend withholding tax credits would be utilised and the State would receive the full amount of the dividend without the deduction of any withholding tax. It is this process not being followed which gives rise to the uncertainty as to the recoverability of the dividend withholding tax credit in the amount of K3.4 million recorded as an asset at 31 December, 2007.

Accordingly, and in the absence of written evidence from the Internal Revenue Commission (“IRC”) and the long delay in executing the requested transfers by the Internal Revenue Commission (“IRC”), I consider there is some doubt as to the recoverability of future benefits attached to the dividend withholding tax credits at 31 December, 2007.

I recommended Management to pursue this matter with IRC and obtain a written acknowledgement of the availability of the dividend withholding tax credits and confirmation as to when the transfer will be executed. The Management had advised me that *they obtained advice from their tax agent that the credit is available. Also based on their meeting with Internal Revenue Commission (“IRC”) they considered the dividend withholding tax credits to be fully recoverable.*

**5. Bonus from managing Companies for selected staff**

The management fee income includes an additional income of K500,000 received from Mineral Resources Lihir (MRL). According to the extraction of the MRL's Board resolution dated 30 November, 2007 and related other correspondences, this fee has been approved by MRL board as a bonus payment to selected staff and land owner leaders who contributed for exceptional performance of the company.

I also noted that in the MRDC's Board Resolutions on 15 September 2007, the Board unanimously resolved that if a subsidiary company wishes to pay a bonus to staff for exceptional performance, the company may pay MRDC who in turn pays the employees.

Although, the payment of the bonus is at the discretion of Management and the Board of the relevant company managed by MRDC, there was no clear documentation on how the above bonus was determined, who was eligible to receive bonus and Management decision processing in determining their final allocation. In the absence of this process, the bonus could be open to manipulation.

I recommended the Management to introduce an appropriate policy on managing company's bonus payments to ensure the fair distribution of rewards. The Management responded that *the policy would be reviewed by Human Resource Committee in due course.*

**6. Payment of Eda Oil Limited Director and Chairman's annual fees until the date of transfer**

I noted that MRDC paid an amount of K250,000 to Mr. Jac Baru, former Chairman and the Managing Director of Eda Oil Limited as an annual fee for performing his duties as a Chairman and managing Director of Eda Oil Limited up to the date of transfer of Eda Oil Limited to Petromin Holdings Limited.

This fee was paid based on the claim made by Mr. Baru that he was paid only sitting fees for being the Chairman and has not been receiving annual fees for performing his duties in that role.

Based on the lawyers instructions, MRDC Board approved and paid K250,000 to Mr. Baru as an annual fee for performing his duties in Eda Oil Limited for four years that he had served in this role. The payment of K250,000 has been calculated based on 2.5 times the MRDC Board Director's current annual fee of K25,000 for a period of four (4) years.

There was no agreement in place to support the claim made by Mr. Baru prior to the claim being made, therefore, I could not determine the validity of the claim.

I brought this matter to the Management and recommended that payment of this nature must be based on appropriately authorised and approved instrument or agreements before they are paid. The Management had responded that *it had sought legal advice and Board's approval to ensure that the payments are validated.*

**63.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the audit of the accounts and records and the examination of the financial statements for the year ended 31 December, 2008 was in progress.

## **64. MOTOR VEHICLES INSURANCE LIMITED AND ITS SUBSIDIARIES**

### **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 then existing Motor Vehicles Insurance (PNG) Trust to conform to the intentions of the National Executive Council (NEC) for then Papua New Guinea 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. The shares of this entity which were held by the Independent State of Papua New Guinea were subsequently sold to then Papua New Guinea Banking Corporation, an entity also owned and controlled by the State.

On 31 December, 1998, as part of the corporatisation and restructuring programme of then Papua New Guinea 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 the amalgamated company, PNGBC Limited, was Finance Pacific Limited, a company wholly owned and controlled by the Independent State of Papua New Guinea.

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 then PNGBC Limited were transferred to MVIL when it took over the responsibility for providing third party insurance.

### **64.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **64.2.1 Comments on Financial Statements**

In accordance with the provisions of the *Companies Act, 1997*, my report on the financial statements for the year ended 31 December, 2007 was issued on 31 July, 2009. The report contained the following qualifications and emphasis of matter:

#### **“QUALIFICATIONS**

##### **Employee Provisions**

The financial statements disclose employee provisions at K0.6 million as at 31 December, 2007. However, satisfactory records were not maintained to enable me to verify the completeness, existence and accuracy of the employee provisions. As a result, I am unable to satisfy myself as to the validity of this account balance.

### **Fixed Assets**

The underlying records maintained in relation to fixed assets of MVIL indicate inadequacy in accounting and recording of fixed assets transactions. This was evidenced by a total book value of K485,514 not being reflected in the asset register nor were the contracts of sale provided for my review pertaining to the disposal of land at Section 35, Lots 37, 38, 39 and 41.

The management could not provide the contracts of sale agreement of the disposed land for my review in spite of numerous requests. As a result, I was unable to ascertain whether the sales were executed as per the terms of the contracts and that the sale amounts reflected the market values.

### **Non Preparation of Consolidated Financial Statements**

Motor Vehicles Insurance Limited owns 52% of shares in Pacific Re Limited and has a 50% joint venture in Pacific MMI Limited.

However, Motor Vehicles Insurance Limited has not prepared consolidated accounts but has shown the above subsidiary at valuation in its financial statements. This practice is not in compliance with International Accounting Standards - 27 on *Consolidated and Separate Financial Statements (IAS-27)* which requires a parent company to prepare consolidated financial statements of all its subsidiaries. Consequently, the financial statements did not give all the required information about the economic activities of the group of which Motor Vehicles Insurance Limited is the parent company. It was therefore not practical for me to quantify the effects of the non-consolidation of the financial statements.

### **Qualified Audit 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 Motor Vehicles Insurance Limited.
  - (i) comply with generally accepted accounting practice; and
  - (ii) give a true and fair view of the financial position of the company as at 31 December, 2007 and the results of its operations and cash flows for the year ended on that date; and
- (b) proper accounting records have been kept by the company as far as appears from my examination of those records.

I have obtained all the information and explanations I considered necessary for the purpose of my audit.

### **Emphasis of Matters**

Without further qualifying my opinion, I wish to draw your attention to the following matters which I consider significant.

### **Compulsory Third Party Certificates**

MVIL has adequate control over records of inventory of compulsory third party certificates ("CTP") at its office in Port Moresby from which certificates are issued to agents or branches each month. However, controls over accounting for CTP certificates issued to agents were ineffective as significant quantities of unaccounted CTP certificates were not detected due to lack of monthly stock reconciliation reviews at the head office.

### **Audit of Statutory Financial Statements**

Section 63 of the *Public Finances (Management) Act, 1995* requires that the audited financial statements of a public body are to be furnished to the Minister before 30 June of the subsequent year however, the Statutory Financial Statements for 2007 was only approved in June, 2009 by MVIL.

### **Non-compliance of Income Tax Regulations**

I have noted that K983,657 in housing allowances, K441,773 in motor vehicle allowances and K177,116 in other allowances were paid out in cash as entitlements to senior management of MVIL but were not taxed appropriately in compliance with the *Income Tax Act, 1959*. Variation approvals or exemption notices from Internal Revenue Commission giving effect to exemptions of the above allowances were not made available for my review. Therefore, I was unable to ascertain the validity of these payments in compliance with the relevant legislation.

### **Travel Expenses**

I have noted that K709,530 was expended in relation to domestic and overseas travels by MVIL during the year under review. Some of these expenses with significant balances lacked appropriate supporting documentation. Also, I noted the frequency of overseas travels by senior management involving huge expenses however for such travels, I was unable to evaluate their cost benefit effect to the company. As a result, I was unable to determine the validity, propriety and authenticity of such expenses."

#### **64.2.2 Audit Observations Reported to the Ministers**

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 for the year ended 31 December, 2007 was issued on 31 July, 2009. My report contained the following observations in addition to the comments expressed in paragraph 64.3.1 above:

##### **1. Non-compliance of Prudential Standards**

Section 42 Subsection 1(a) of the amended *Compulsory Third Party Motor Vehicles Insurance Industry Act, 2002* requires that MVIL shall at all times during the currency of a license issued under the *Insurance Act, 1995*;

- 1) maintain a minimum amount of K 4,000,000 in cash with a licensed bank in Papua New Guinea to meet its obligation to pay the claims under the Act or *Motor Vehicles (Third Party Insurance) (Basic Protection Compensation) (amended) Act, 2000 Chapter 296*; and

- 2) maintain with the Bank of Papua New Guinea a deposit of money which amounts are not less than:-
  - a) K100,000 or
  - b) 10% of its net premium income (exclusive of Government statutory charges and Goods and Service Tax) of the previous financial year.

Which ever is greater.

Neither of these requirements were complied with.

I recommended management to comply with the requirement of the Act and the management advised that *“the cash position of MVIL is very healthy and a lot of surplus funds are placed on short and long-term deposits which can meet all liabilities arising from insurance claims and to make a separate deposit and keep it away idle is not a good investment.”*

## **2. Internal Control over Third Party Certificates**

MVIL has adequate control over the records of inventory of compulsory third party certificates (“CTP”) at its head office in Port Moresby from which certificates are issued to agents or branches each month. However, I am unable to satisfy myself on the number of damaged or destroyed CTP’s reported on monthly returns by the agent/branches. There could be a possibility of declaring issued CTP as damaged/destroyed while same could have been issued to the public. My review of stock reconciliation of the Compulsory Third Party (CTP) stickers in respect of Kimbe Bakery Limited agency revealed that of the 2,507 stickers issued during the year, 233 CTP stickers were not properly accounted for. I also noted that Tawap Kamen Investments presented the same weakness whereby 289 out of the total of 825 CTP stickers issued during the year were not properly accounted for. It appears that stock reconciliations were not reviewed as required and as a result the above discrepancies were not detected and investigated.

Loss of large number of CTP stickers may have a significant impact on premium revenue in terms of revenue losses that may result in shrinking profits.

I requested management to explain the unaccounted CTP stickers and also recommended that it is important that reviews on stock reconciliations are done regularly to detect and investigate stock losses on a timely basis and the management advised that *“the Management will ensure that CTP stock reconciliations are reviewed on a monthly basis and all unused stickers are accounted for and explained. Any unexplained CTP stock discrepancies will be investigated and accounted for.”*

### 3. Implementation of new integrated system

In my earlier reviews, I have recommended for the integration of the two revenue systems, particularly, Online system (Twin system) and Offline system (Sikau system) with enhanced features such as having a reporting facility for management reporting purposes. However, at the time of my review, the issue was still outstanding as no management effort was made to address the issue. It is important that MVIL implements a new integrated system to cater for the increase in the volume of activities.

Due to the shortcomings of the current system most of the reports are manually produced. Manual reports are subject to error and manipulation and hence it may provide the opportunity for an intentional or unintentional misstatement of income.

I recommended that management should consider the possibility of implementing an upgraded system which will replace manual procedures with automated procedures and the management has advised that *“the Online (Twin sticker) revenue system is suitable for locations that generate sufficient premium income and those that have communication facilities whilst the offline system is for smaller town areas with limited facilities and low premium collections. Further, the telecommunication cost for the online system does not justify the small premium collection agents in the outer areas.”*

### 4. Directors Fees Paid to Public Servant

Mr. Henry Parakei, Secretary for Transport, who is a Public Servant and is an ex-officio member of the MVIL Board was not entitled to any remuneration or allowances. However, he was paid Director’s stipend and sitting fees in respect of MVIL and Pacific Re Limited, the companies he holds directorship positions. These payments were made against Department of Personnel Management’s directive that public servants are not entitled for any stipend or sitting fees.

The following were the allowances which were paid to him from MVIL’s account.

- 1) MVIL for 2007: K32,916; and
- 2) Pacific Re Limited for 2007: K32,961.

I advised Management to desist from the practice of paying allowances to Public Servants and I have been since advised that *“Mr. Henry Parakei sits on a couple of other Boards of State owned entities and was already cleared by relevant authorities such as the Ombudsman Commission and Office of Attorney General to receive directors’ allowances whilst being a public servant.”*

However, no documentary evidence was made available to prove that the clearance was indeed obtained to receive the directors’ allowances as his entitlement.

## 5. Directors Fees

IPBC, the shareholder of all the shares of Motor Vehicles Limited has determined the Directors stipend policy in 2006 and approved by the Minister in May, 2007 and the same was advised to all state owned entities. However, MVIL has claimed that the fees approved by IPBC were net and therefore, grossed up the allowances then taxed which is not appropriate. As a result, the following excesses were paid to the Directors of MVIL Board.

	<b>IPBC approved Gross Stipend &amp; Sitting Fees Kina</b>	<b>MVIL Paid Kina</b>
Mr. Eremas Wartoto	40,400	70,111
Mr. Bernard Fong	24,200	78,462
Mr. Henry Parakei(Ex-Officio)	not eligible	73,999
Mr. Danny Tjoeng	24,200	39,515
Mr. Albert Veratau	24,200	40,353

## 6. Group Tax

I noted that housing allowances totaling K983,657, motor vehicle allowances of K441,773 and other allowances of K177,116 were paid to employees but were not taxed appropriately in compliance with the *Income Tax Act, 1959*. Variation approvals from Internal Revenue Commission (IRC) towards claiming exemptions of the above allowances were also not made available for my review. Most of these allowances have not been included in the payroll to be taxed, instead were paid directly into personal accounts and various companies for provision of various goods and services without being taxed.

I also noted errors in computation of group tax especially when ad-hoc allowances or benefits were provided to employees.

I recommended that all cash allowances should be taxed appropriately as per the *Income Tax Act, 1959* and I have since been advised that “*Management is to arrange for variations from IRC for taxable allowances. All other allowances are taxed accordingly.*”

## 7. Travel Expenses

I noted that K517,338 was expended in relation to overseas travels and K192,192 was spent for travels within PNG. However, some of these expenses lacked appropriate supporting documentation. I was unable to evaluate the cost benefit effect of these travels.

I recommended management to put in place proper monitoring of overseas travels as well as local travel expenses. I also, recommended for proper identification of personal traveling expenses of employees for tax purposes and I have since been advised that “*both domestic and overseas travel requests were approved by the Managing Director and Management is to ensure that major travel expenses are adequately approved and monitored to identify personal expenses of the staff concerned.*”

## 8. Payroll and Long Service Leave Provision

I noted that annual and Long Service Leave provisions were generated by the Chris payroll system. My review based on the samples revealed Long Service Leave provisions had not been properly accounted for by the system. In addition, annual leave provisions for some staff had negative balances. I further noted that incorrect calculation of Long Service Leave provisions may result in LSL being misstated and may lead to improper payouts and incorrect accrued leave days or advance payments causing overstatement of annual leave salary payments.

I recommended the Management to do a proper reconciliation of both leave provisions and I have since been advised that *“Both annual and long service leave (LSL) provisions are generated by the Chris payroll system and taken up in the general ledger on a monthly basis and further, HR division is to ensure that both annual and LSL payments are made as they become due and not in advance.”*

## 9. Fixed Assets

In my review of the fixed assets records in relation to disposals, I noted that eight (8) allotments (Lot 33, 37, 38, 39, 41, 45, 47 & 48) of the land located at Section 35 were sold during the year. However, the land title deeds pertaining to the land sold were not made available to enable me to verify the legal ownership. Further, transfer documents were not provided for my verification to confirm the authenticity of the transactions. Thus, disposal of land at Section 35 Lots 37, 38, 39 and 41 with a total book value of K485,514 was not reflected in the fixed asset register.

Further, the Plant and Equipment balance shown in the asset register was more than the amount stated in the general ledger. No proper verification of gains/losses were ascertained due to inadequate provision of information, hence gains/losses may have been misstated. Also, failure in updating the fixed asset register may have resulted in assets not properly accounted for.

I recommended management to properly account for the disposals to reflect gains or losses in the financial statements. Further, I advised the management that all source documents of disposals required for my review be provided in accurate and complete form and I have since been advised that *“Disposal of 8 allotments – the investment division is to ensure that all transfer documents pertaining to allotment sales are maintained and made available and that the fixed asset register is updated accordingly.”*

## 10. Disaster Recovery Plan

Management claimed that Information Technology Department had a disaster recovery plan that guarantees the continuity of activities or operations in the event of the company encountering catastrophic disasters such as fire and cyclones. I was not given the opportunity of viewing the documented plan but was informed it was contained in a thick document. As advised the disaster recovery plan had not been tested to ensure it's feasibility.

I recommended that the disaster recovery plan be reviewed and implemented to ensure that the underwriting business was not interrupted or discontinued in the future should a disaster strike and I have since been advised that “*Management is to ensure that the disaster recovery plan is not only in place but tested as to ensure it is feasible.*”

#### **11. Staff Loans**

I noted that thirty three (33) employees were each provided with amounts of K2,000 and less as staff loans. A close examination of recoveries made revealed that there were no regular salary deductions to ensure that the loans were paid off on a timely basis.

I recommended Management to take necessary steps to ensure that regular deductions were made for staff loans to ensure timely recoveries and I have since been advised that “*Management is to ensure that the fortnightly salary deductions are done for all staff with loans. HR department is to ensure that the MVIL staff loan policy is adhered to and that no further loans should be granted to staff with outstanding loans.*”

### **64.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the fieldwork associated with the inspection and audit and the examination of the financial statements for the year ended 31 December, 2008 was in progress.

## **65. NATIONAL DEVELOPMENT BANK LIMITED (FORMERLY RURAL DEVELOPMENT BANK LIMITED)**

### **65.1 INTRODUCTION**

#### **65.1.1 Legislation**

The Agriculture Bank of Papua New Guinea was established under the *Agriculture Bank Act (Chapter 139)*. The name of this organisation was changed to Rural Development Bank of Papua New Guinea with the operationalisation of the *Agriculture Bank (Change of Name) Act, 1993*, on 17 December, 1993. This Act was amended by the *Rural Development Bank (amended) Act, 1997*.

On 14 January, 1998, the National Executive Council (NEC) through Decision No. 4/98 approved the acquisition of the business of Rural Development Bank Limited by the then Papua New Guinea Banking Corporation Holding Company No. 1 Limited as part of the reform of the financial services sector.

In accordance with the decision, all assets held by, and all obligations and liabilities imposed on the Bank were transferred to a successor Company (Rural Development Bank Limited) on a transfer date, and the Bank became a subsidiary of the then Papua New Guinea Banking Corporation Holding No. 1 Limited. Rural Development Bank Ltd. is a 100% State owned company with shares held by the Minister for Treasury on behalf of the State and to comply with the provisions of the *Companies Act, 1997*, one (1) share is held by the Minister for Finance (formerly the Minister for Internal Revenue) in trust for the State. The name of this Bank again changed to National Development Bank Limited in 2007 under the *National Development Bank Act, 2007*.

#### **65.1.2 Functions of the Bank**

The principal functions of the Bank are: to provide development finance to Nationals/National Companies for the purpose of primary agriculture production and the establishment of industrial or commercial undertakings; to provide advice and assistance with a view to promoting the efficient organisation and conduct of primary production, or of industrial or commercial undertakings; to act as agent for the Government in relation to any matter within the functions of the Bank; and to serve the rural population through the provision of rural credit.

#### **65.1.3 Subsidiaries**

The Bank's subsidiaries are Matakau Development Limited, Small Holders Rural Project Company Limited and Stret Pasin Stoa Companies. Comments in relation to these subsidiaries are contained in paragraphs 65A to 65B of this Report.

**65.2 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, 2007 and 2008 for my inspection and audit.

The Bank advised me by letter dated 16 November, 2007 that the Bank had appointed its own Auditors under the new *National Development Bank Act, 2007* to perform the audit of the Bank for the year ended 31 December, 2007.

I reminded the Bank of my Constitutional responsibilities and stated in my letter of 22 November, 2007 that the National Constitution which empowers me to audit State Institutions overrides all other Acts. Despite my objections, the Bank appointed a private accounting firm to carry out the audit for the year ended 31 December, 2007 and 2008.

There appears to be no indication that this audit will be carried out by my Office again. That being the case, I intend to exclude this Entity from my future audit consideration.

**65A. SMALL HOLDER RURAL PROJECTS MANAGEMENT COMPANY LIMITED (A SUBSIDIARY OF THE NATIONAL DEVELOPMENT BANK LIMITED)**

**65A.1 INTRODUCTION**

Small Holder Rural Projects Management Company Limited was incorporated under the *Companies Act, 1997*.

**65A.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, 1999 to 31 December, 2002 for my inspection and audit.

The Company ceased operations in early 2002 and I have since been advised that the accounts and records of the Company were transferred to National Development Bank Limited to have the financial statements prepared for the above years for my inspection and audit. I have not been successful in obtaining these statements from the Management of the Bank in spite of all the attempts made since my last three Reports to Parliament.

Since the Company ceased trading, this will be my final report on this Company to Parliament.

**65B. STRET PASIN STOA COMPANIES (SUBSIDIARIES OF NATIONAL DEVELOPMENT BANK LIMITED)**

**65B.1 INTRODUCTION**

Stret Pasin Stoa Scheme stores are incorporated as limited companies under the *Companies Act, 1997*, each with K2 issued capital comprising 2 shares of K1 each, one share being held by the National Development Bank Limited and the other by the Bank's 100% owned subsidiary, Retail Management Services Limited.

Each store is managed by a manager appointed by the Bank and has two Directors who are employees of the Bank and are nominated by the Bank. The establishment cost of each store is financed by way of loan funds, which are repaid from the store's cash flow. Shares are transferred to the manager and his family when the Bank is satisfied that the manager has had a history of managing the store profitably, and has met all other requirements of the Scheme.

As at 31 December, 2002, there were nine (9) such stoa companies under the scheme.

**65B.2 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 for the year ended 31 December, 2002 had been completed and the signed financial statements were awaited since my last report for the issuance of the audit reports. Due to the change in the Companies Management, I was unable to obtain any further information on the current status of the Companies' performance despite various reminders to the Management.

The Stoa Companies were transferred to the Managers of the Companies and accordingly National Development Bank ceased control over managing these Companies. That being the case, I intend to exclude these Companies from my future audit consideration.

## **66. NCD WATER AND SEWERAGE LIMITED (EDA RANU)**

### **66.1 INTRODUCTION**

#### **66.1.1 Legislation and Objects of the Company**

The NCD Water and Sewerage Limited was incorporated under the *Companies Act*. The *National Capital District Commission (Transfer of Assets, etc) 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 National Capital District Commission.

#### **66.1.2 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 National Capital District.

### **66.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **66.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act, 1997*, on the Company's Financial Statements for the year ended 31 December, 2007 was issued on 04 February, 2009. The report contained the following qualifications:

#### **“QUALIFICATIONS**

##### **Revenue**

Sales revenue was stated as K78,874,354 out of total revenue of K78,980,164. The billing and collection of this revenue was controlled by a third party company, JC KRTA Consulting Group. Records in relation to billing, collection and banking were kept by the Consulting Group as per the Concessionaire Agreement. I was unable to perform the relevant audit procedures to confirm and verify the completeness, measurement and validity of the account balance at year end.

##### **Trade Debtors**

Trade debtors were stated at K18,742,115 as at 31 December, 2007. As per the Concessionaire Agreement, these records were kept by JC KRTA Consulting Group. I was unable to validate the debtors' balance and conclude on the accuracy, measurement and completeness of account balance for the year ended 31 December, 2007.

##### **Cash and Cash Equivalents**

Cash and cash equivalents were disclosed as K5,069,969 at 31 December, 2007. I was not provided with bank reconciliation statements for a number of bank accounts including the Maybank Escrow Account which had a balance of K1,000,000 at year end. Furthermore, I was not able to sight the bank confirmations of most bank accounts. Consequently, I was unable to extend my audit procedures to satisfy myself as to the accuracy, measurement and completeness of the cash and cash equivalents at the year end.

### **Fixed Assets**

The Company's total fixed assets amounted to K33,666,439 as at 31 December, 2007. However, there was no proper fixed asset register maintained to record the movement of assets capitalized and/or disposed off during the year. I noted that most of these assets were transferred from the National Capital District Commission and I was unable to determine if any valuation had been carried out to ascertain their current market values. I was also not able to carry out any physical verification of those assets. Consequently, I was unable to satisfy myself as to the accuracy, measurement, existence and completeness of the carrying values of fixed assets stated at the year end.

### **Disclaimer of Audit Opinion**

In my opinion, because of the limitation on the scope of my work as described in the paragraphs above, and the effects of such adjustments, if any, that might be determined to be necessary had the limitations not existed, I am unable to and do not express an opinion on the financial statements of the Company for the year ended 31 December, 2007.”

#### **66.2.2 Audit Observations Reported to the Ministers**

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 Company for the year ended 31 December, 2007 was issued on 04 February, 2009. In addition to the comments made in paragraph 66.2.1 above, the report contained the following significant matters:

##### **1. Advances to Employees**

I noted that advances ranging from cash, educational, housing, accommodation and advances of personal nature for purchase of motor vehicles and white goods were given mainly to senior employees of the Company. Although efforts were made to recover these advances, I noted instances where recovery actions were not implemented on a timely basis. Further, I noted that there were no guidelines or policies on the advances and as such advances were subject to abuse.

*Management advised that it would address the issue by drawing up proper guidelines and strengthening the policy and procedure. The Policy Section would be tasked to address the issue.*

##### **2. Accommodation Allowance**

Employees on salary grade six and above were entitled to accommodation allowances ranging from K7,000 to K90,000 per annum as part of their salary packaging system. However, most employees had elected for their allowances to be paid through their own companies, thereby assuming responsibility for paying taxes themselves. I was unable to ascertain whether the appropriate amounts of taxes were paid to the Internal Revenue Commission. Further, I did not sight any agreements between NCD Water & Sewerage Limited and the employees' owned companies regarding the payment of these allowances.

*Company advised that it had acknowledged this concern and had already taken steps to address the issue. Management further responded that from January 2008 all accommodation allowances are no longer paid to employees' companies but paid directly to the landlords or through the payroll system.*

**3. Salary Packaging**

As reported in my earlier report, the Company had a salary packaging system under which employees could re-arrange their remuneration at their discretion except for health insurance benefits. I noted that all employees were on salary packaging and that, most employees including senior employees had re-arranged their remuneration by increasing the accommodation allowances which were paid to their Companies or third parties. Although this was normal and part of the salary packaging, there was a risk of employees taking advantage of the packaging to reduce tax liability. There was also exposure to the risk of attracting the attention of the Internal Revenue Commission for tax implication where accommodation allowances were considered to be excessive and the Company may be held responsible. Management's response to my observation was as follows:

*"In 2008 managements had taken necessary steps to ensure that no base salaries, domestic market allowances and gratuities were rearranged as part of the packaging. It further informed that all allowances had been taxed."*

**4. Taxation Issues**

In my review of the Special Board Meeting Minutes (No.2 of 2007), I noted that the Company had an outstanding tax liability in excess of K4 million with the Internal Revenue Commission. A 14 day garnishee order was issued in March of 2007 and later on during the year another order was issued. I was unable to determine the exact nature and the amount of this unrecorded tax liability and the impact it may had on the financial statements due to the lack of sufficient and appropriate supporting documentation in support of the above Board meeting.

**5. Cash and Cash Equivalents**

Cash and cash equivalents were disclosed as K5,069,969 in the financial statements at 31 December, 2007. Excluded from this account balance was the BSP bank account (1000940143) which had a credit balance of K2,273 at year end. I was not provided with bank reconciliation statements or the supporting documentation for the account. I requested management to explain the non inclusion of the account in the accounts and they confirmed that this account existed. I drew Management's attention to this and its response to this observation was as follows:

*“Management was not aware of it. No transaction had gone through this dormant account except for the monthly maintenance fees charged by the bank. We would make an adjustment in the account to reflect the balance as confirmed by the bank and have the account closed and the balance transferred to Eda Ranu Main Operating Account.”*

**6. Fully Depreciated Fixed Assets**

The fixed asset register of the Company included property, plant and equipment which were fully depreciated and had a written down value of Nil Kina. Although the assets were fully depreciated, they were still in existence and were used for business purposes. I recommended that management conducts a full stocktake, review the fixed asset register and retire obsolete and redundant items, so that a fair value of the assets was stated in the financial statements. In response, the management informed as follows:

*“In the mean time this should not have had an effect on the total value of the assets as the total cost and the depreciation had offset each other, however management acknowledges this and is looking forward to carry out a full revaluation of all the Eda Ranu assets at the end of the year or the coming year.”*

**7. Stock**

I noted that stock records were maintained on an excel spreadsheet and then monthly general ledger postings were done to update the AccPacc Accounting system. I informed the Company to immediately introduce appropriate accounting software that could integrate the stock balances with fixed assets and other general ledger accounts after the Company failed to implement this recommendation in my earlier report.

*Management concurred with my recommendation and said that it was hunting around for a financial system that would be integrated with the stores ledger.*

**8. Director’s Fees and Advances**

As reported in my earlier report, Directors of the Company received monthly stipends as members of the Company's Board. However, I noted that the stipends were not paid to the individual Directors but to the Director’s nominated Companies, without tax being deducted. I was not provided with satisfactory explanation as to why stipends were paid to nominated Companies if Directors were appointed as individuals and not as representatives of nominated Companies. Furthermore, I noted instances where Directors were given advances to be recovered from their monthly stipends but recovery actions were not implemented on a timely basis. I was not able to determine if the advances were part of the Directors’ package. There was the risk of the Directors being seen as using their position to obtain advances. In addition, there was a risk that the advances may not be recovered in the event the Director’s term expired.

The Management advised that necessary steps were taken to address this weakness as of January 2008.

**9. Department of Finance Representative on the Board**

The Department of Finance had a representative on the Board of the Company. As a public servant he was not entitled to receive monthly stipend, sitting allowances and any other payments. However, I noted that this representative was paid a total of K1,735.

**10. Unbudgeted Cash Payments (Donations & Others)**

Cash payments were made to individuals and members of staff, youth and community groups and others. Monies totaling K1.2 million were expensed in this manner. I also noted that K100,000 was paid for donations. In response to my queries regarding the vulnerability and the susceptibility to fraud of these unbudgeted payments, the management stated that:

*“Cash payments were made to youths and police escorts who provide security to our reservoirs and other installation around the city. Because of the nature of our business, these people were engaged and had to be paid in cash. They signed for the cash upon payment. Donations in cash were also made to resource owners and youth groups and were properly authorized by management.”*

**11. Security Services**

A number of security firms were engaged by the Company to provide security services. I did not sight any agreements in relation to the provision of this service. I noted that K257,000 was paid to these security companies, authorized by the respective executive managers. I requested management to explain and it responded to my observation as follows:

*“Management agreed that there was no formal contractual agreement between the individual security firms and Eda Ranu. The engagement of the security firms, together with the rate charged were endorsed by the Board. There were five (5) security firms the Board approved to provide security services to the Company. The increase in costs was due largely to engagement of police personnel for illegal connections and the youth groups to provide security for the reservoirs around the city.”*

**12. Board Meeting and Minutes**

I was unable to ascertain the contents of the Minutes of Board's Meeting number five held by the Board of the Company in the current year, due to the absence of Minutes of Meeting. Management informed me that the Minutes of this meeting were misplaced by the then Company Secretary, hence I was unable to ascertain the validity and the authenticity of the matters resolved and their deliberations in succeeding meetings.

**13. Share Register**

The Company had not maintained a share register. Accordingly, the Company has not complied with Section 23 of the *Companies Act, 1997*, which requires the maintenance of such register.

**14. Internal Audit**

In my earlier reports, I recommended that an Internal Audit Unit be established and to date the Company has not complied with it. To enhance efficient and effective internal controls and corporate governance, the Internal Audit Unit could deal with issues such as verification and checking of fixed assets, monitoring the operational functions and financial aspect of the Company and preparing internal audit reports to the management. The management acknowledged the issue and advised of setting up the Internal Audit Section.

**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, 2008 was in progress.

## **67. NIUGINI INSURANCE CORPORATION LIMITED**

### **67.1 INTRODUCTION**

#### **67.1.1 Legislation**

Niugini Insurance Corporation Limited is a public company formed on 20 August, 1992. It was formed to change the status of then existing Niugini Insurance Corporation to a public company. Niugini Insurance Corporation Limited was incorporated under the *Companies Act* to be the successor company of Niugini Insurance Corporation.

In January 1998, the Government of Papua New Guinea announced its intention for the then Papua New Guinea Banking Corporation to acquire Niugini Insurance Corporation as part of the reform of the financial services sector.

#### **67.1.2 Functions of Niugini Insurance Corporation Limited**

The functions of the Corporation are: to carry on all kinds of insurance business; to carry on fire, marine, accident, employer's liability, workers compensation, life, sickness, burglary and robbery, theft, fidelity and transit insurance; to grant annuities of all kinds; to purchase and deal in and lend on life reversionary and other interests in all properties of all kinds; and to reinsure or counter-insure all or any risks and to undertake all kinds of re-insurance and counter-insurance.

#### **67.1.3 Cessation of Trading**

In October 1998, PNGBC entered into an agreement with MMI General Insurance (NZ) Limited to form a joint venture company, Pacific MMI Insurance Limited. Supplementary agreement entered into provided for the Company (Niugini Insurance Corporation Limited) to cease conducting insurance business except for the purposes of running off its existing insurance contracts and policies, and for its fixed assets to be transferred to either the then Papua New Guinea Banking Corporation (PNGBC) or Pacific Mutual Insurance Limited (PMIL) at net book values and for employees to transfer to Pacific Mutual Insurance Limited (PMIL). These transactions were effective as of 1 July, 1998.

### **67.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **67.2.1 Comments on Financial Statements**

In accordance with the provisions of the *Companies Act, 1997* my report to the members of the Corporation on the financial statements for the years ended 31 December, 2008 and 2007 were issued on 25 March, 2009. These reports contained similar qualifications, hence, only 2008 report is reproduced as follows:

## “QUALIFICATIONS

### **Limitation of scope arising out of last year’s Disclaimer of Opinion**

I audited the financial statements of the Corporation for the year ended 31 December, 2007 and issued a disclaimer of opinion on them. Consequently, I was unable to quantify the effects of the material misstatements on the opening balances that might have a bearing on the balances reported in the 2008 financial statements. I was also unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances that would have a consequential effect on the financial statements for the year ended 31 December, 2008.

### **Provisions**

The Provisions account was disclosed as K3,926,659 in **Note 8** to the financial statements as at 31 December, 2008. The Corporation did not maintain proper accounts and records of the provisions made and as such it was impracticable for me to extend the audit procedures to satisfy myself as to the completeness and accuracy of the balance at year end.

### **Disclaimer of Opinion**

In my opinion, because of the existence of the limitation of scope on my work as described in the aforementioned paragraphs, and the effects of such adjustments, if any, as 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 for the year ended 31 December, 2008.

### **Emphasis of Matter – Inherent Uncertainty Regarding Going Concern**

Without further qualification to the opinion above, I draw your attention to Note 1(a) “**Going Concern**” in the financial statements which indicates that the Company’s current liabilities exceed its current assets by K3,738,231 (2007: K3,702,417). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. Note 1(a) describes these conditions and the factors which the directors consider as supporting the adoption of the going concern basis.”

#### **67.2.2 Audit Observations reported to the Ministers**

My reports to the Ministers under Section 8(2) of the *Audit Act, 1989 (as amended)* on the audit and inspection of the accounts and records of the Corporation for the years ended 31 December, 2008 and 2007 were issued on 25 March, 2009.

Except for the qualifications and the comments referred to in paragraph 67.2.1 above, the reports did not contain any other matters of significance.

## **68. NORTH FLY HIGHWAY DEVELOPMENT COMPANY LIMITED**

### **68.1 INTRODUCTION**

North Fly Highway Development Company Limited, was incorporated under the *Companies Act*.

The main objective of the Company was to finance a permanent access road from Kiunga to Tabubil in Western Province.

### **68.2 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, 2001 to 2008 for my audit and inspection despite numerous reminders from my Office. My last reminder letter was forwarded to the Company on 11 June, 2009.

**69. PAPUA NEW GUINEA PORTS CORPORATION LIMITED (FORMERLY PAPUA NEW GUINEA HARBOURS LIMITED)**

**69.1 INTRODUCTION**

**69.1.1 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 National Executive Council (NEC) in 1999. The Company changed its name to PNG Ports Corporation Limited on 7 March, 2006.

**69.1.2 Functions of PNG Ports Corporation Limited**

The general functions of the Papua New Guinea 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.

**69.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

**69.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act 1997*, on the financial statements of the Corporation for the year ended 31 December, 2007 was issued on 16 June, 2009. The report contained the following qualifications:

**“BASIS FOR DISCLAIMER OF OPINION**

**1. Limitation of Scope arising out of prior year’s Disclaimer of Opinion**

I audited the financial statements of the Corporation for the year ended 31 December, 2006 and issued a full disclaimer of opinion on them. Consequently, I was unable to quantify the effects of such material misstatements on the opening balances that would have a bearing on the balances reported in the year 2007 financial statements. I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy or completeness of the opening balances or comparatives presented. Any adjustment that would have been found to be necessary on such opening balances would have had a consequential effect on the financial statements for the year ended 31 December, 2007 and the comparative amounts presented.

**2. Internal Control Environment**

Several weaknesses were noted in PNG Ports Corporation’s (PNGPC) accounting systems and the overall internal control environment of the period under audit. I also noted that weakness in the management information system contributed to the ineffective monitoring of the preparation and quality of the financial statements.

**3. Unexplained Adjustment of K97,314,937 in Assets Revaluation Reserve Balance**

Movements in the Asset Revaluation Reserve balance included an adjustment of K97,314,937 attributed to the valuation of properties in 2007. Issues in relation to the crediting of this adjustment are:

- the movements in the Asset Revaluation Reserve balance could not be reconciled to movements in the fixed assets;
- depreciation charges for the re-valued amounts were not computed and charged to Profit and Loss; and
- revaluation decreases amounting to K89,078,500 had been taken to Asset Revaluation Account as reversals of prior periods revaluations increases. There was no evidence to prove that the properties had prior revaluation increases. As a result, I was unable to comment on the validity of the adjustment made in the Assets Revaluation Reserve account.

**4. Cash at Bank – K9,781,229**

The cash at bank balance included a receipt amounting to K1,947,750 received on 25 February, 2008 from PNG Harbours Limited National Projects Fund account was shown as an outstanding deposit at 31 December, 2007. Further review confirmed that the cheque was cleared on 28 February, 2008. The receipt and the related payment clearly related to 2008 financial year and therefore, the inclusion of the receipt in the cash at bank balance for 2007 was incorrect.

**5. Taxation (Deferred Tax Assets, Liabilities, Provision for Income Tax, Tax Expense)**

The computations in respect of deferred tax assets and liabilities and provision for income tax were not carried out by the PNGPC and the movements accounted for. I was not provided sufficient documentations to carry out the necessary audit procedures to be able to comment on the adequacy of the tax balances in respect of the year under review.

**6. Trade Debtors, Provisions for Doubtful Debtors and Doubtful Debts Expenses**

The review of trade debtors accounts amounting to K10,167,819 which represent 74% of the outstanding debtors balances of K13,675,426 indicated that the provisions raised by PNGPC of K8,020,635 was excessive by K984,765. Further, proper reconciliations of the movement between the doubtful debts expenses account, provisions for doubtful debts and trade debtors accounts were not made available for audit review.

**7. Property, Plant and Equipment – K192,641,200**

The review of Property, Plant and Equipment revealed the following:

- ▶ proper stocktake of all the assets owned by PNGPC which are scattered through out the country was yet to be carried out by PNGPC. The last verification was carried out in 2000. In the absence of a proper stocktake, I was unable to comment on the existence of the assets and the accuracy of the balances stated at the year end;
- ▶ the Board during the period under review made decisions to dispose off several properties owned by PNGPC. The properties concerned were not properly accounted for and disclosed as assets held for sale;
- ▶ a major revaluation exercise was carried out during the period under review on the land, buildings, wharfs and other installations of PNGPC. I noted that depreciation was not calculated and charged for some of the assets, mainly operational assets amounting to K19,301,107 were not re-valued which was in contravention to the requirements of *International Financial Reporting Standards* to revalue all items in a class of assets; and
- ▶ documentation on the valuation exercise was not provided for my independent review as to how the whole exercise was carried out. Hence, I was unable to determine the extent of the work carried out.

In the light of the above observations, I was unable to ascertain the completeness, existence and accuracy of the fixed asset balances as reported in the financial statements.

#### **8. International Loans – K17 Million**

The Independent State of PNG is the principal borrower of the above loan and PNGPC is the sub borrower. PNGPC explained that the State had repaid the principal amount some years back. According to PNGPC the amount outstanding and reflected in the books of PNGPC related only to interest portion which PNGPC pays subject to funds availability. I did not sight a waiver or any documentation in respect of the arrangement for PNGPC to pay the State as and when it had sufficient funds. In the absence of any supporting information, I was unable to carry out the required audit tests to satisfy myself that the loan liability had been fairly stated.

#### **9. Trade Creditors & Accruals – K5,591,308**

Included in the above balance was an amount of K859,398 relating to trade creditors, accruals of K2,472,772, GST payable of K1,227,917 and K925,374 relating to other creditors. Proper reconciliations were not made available for my verification, therefore I was unable to extend my audit tests to verify the accuracy of the trade creditors and accruals stated at the year end.

**10. Trust Funds (Wharf Projects) – K19,775,410**

Included in the above liability balance was K1 million relating to funds invested in Resources Investments Finance Limited (RIFL). This investment was written off by the Board from the books of PNGPC in 2005. The corresponding liability balance was also written off. Since the primary obligation for this liability still rests with PNGPC, it was considered appropriate that the liability continue to be recognised in the account in spite of the write off. As a result, trust funds and accumulated losses were understated by K1 million. Once the funds had been used up in projects then the liability could be written-off from the books of PNGPC.

**11. Related Party Disclosures**

I noted that certain related party relationships exist specifically in relation to IPBC and the Board members. PNGPC had not properly disclosed the related party relationships and the extent of the transactions with those related parties in the accounts as required under International Financial Reporting Standard (IFRS – IAS 24). I was unable to comment on the related party relationships and the extent of dealings with related parties as required under IFRS.

**Disclaimer of Audit Opinion**

In my opinion, because of the significance of the matters discussed in the preceding paragraphs, I am unable to and do not express an opinion on the financial statements of the Company for the year ended 31 December, 2007.”

**69.2.2 Audit Observations Reported to the Ministers**

My report to the Ministers under Section 8(2) of the *Audit Act, 1989 (as amended)*, on the audit and inspection of the accounts and records of the Corporation for the year ended 31 December, 2007 was issued on 16 June, 2009. My report contained the following comments in addition to the qualifications expressed in paragraph 69.2.1 above.

**Audit of Statutory Financial Statements**

The audit of the 2007 financial statements was not finalised by 30 June, 2008 due to several weakness in the Corporation’s accounting systems and over-all internal control environment operating during the period under audit. As such, Management was unable to meet the deadline required by Section (63) of the *Public Finance (Management) Act, 1995* for audited financial statements to be furnished to the Minister before 30 June of the subsequent year.

**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 Corporation for the year ended 31 December, 2008 was in progress.

## **70. PNG POWER LIMITED**

### **70.1 INTRODUCTION**

#### **70.1.1 Legislation**

PNG Power Limited was incorporated by the Privatisation Commission under *Section 3(1)* of the *Electricity Commission (Privatisation) Act, 2002* (the ‘Act’) as the successor company to the Papua New Guinea Electricity Commission, a statutory corporation established under the *Electricity Industry Act (Chapter 78)* (“ELCOM”).

#### **1. The *Electricity Commission (Privatisation) Act, 2002* transferred to PNG Power Limited**

- a) 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;
- b) All of ELCOM’s liabilities other than those transferred to PNG Dams pursuant to item *2(b)*;
- c) All water use permits held by ELCOM and referred to in *Section 7(1)* of the *Act*; and

#### **2. Employees**

Transfer all of the employees of ELCOM to the employment of PNG Power Limited.

#### **3. PNG Power to be specified entity**

Declare PNG Power Limited as a “Specified entity” for the purposes of *Section 8* of the *Act*.

#### **4. Shares in PNG Power**

In accordance with the privatisation policy of the Privatisation Commission, transfer of all the issued shares in the capital of PNG Power to the Privatisation Commission (or, if on the date of this notice it is the successor to the Privatisation Commission, the Independent Public Business Corporation of Papua New Guinea as the trustee of the General Business Trust under the *Independent Public Business Corporation of Papua New Guinea Act, 2002*); and

#### **5. Consideration**

The consideration for the transfers referred to in *items 1* and *2* is nil.

#### **70.1.2 Functions of the Company**

The functions of the Company are mainly 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.

## **70.3 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **70.3.1 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, 2007 was issued on 30 June, 2009. The report contained the following qualifications:

#### **“QUALIFICATIONS**

##### **Limitations of Scope**

##### **1. Opening Balances**

My report for the years ended 31 December 2006 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 creditors and tax balances. Since these opening balances entered into the determination of the results of operations and cash flows of the Company in 2007, I am unable to determine whether adjustments to the results of operations and cash flows might have been necessary for the year ended 31 December, 2007.

##### **2. Capital Work in Progress**

I was not provided with complete documentation in respect of the costs incurred during the year 2007 for the various Capital Projects under progress. Consequently, I was unable to determine the accuracy of neither the capital work costs incurred in 2007 nor the residual carrying value of K220 million in the financial statements.

##### **3. Property, Plant and Equipment**

I was not provided with complete documentation in respect of the costs capitalized during 2007 to enable me to verify valuation or accuracy. Additionally, the Company's 2007 physical verification did not cover certain items of property, plant and equipment. Carrying value of these items amounted to K136 million and it was not practicable to extend my audit procedures to satisfy the existence nor valuation of this amount.

##### **4. Depreciation**

Due to the fixed asset limitations mentioned above I was not able to verify the accuracy of depreciation charged to the profit and loss account in the 2007 year and its impact on the accuracy of the profit for the year.

**5. Inventory**

At the balance date, the main account bank reconciliation included a reconciling amount of K15.6 million representing payments made to various overseas suppliers for various items purchased by the Company. At the time of payment, these payments were not processed into the Company's general ledger system, hence appearing as a reconciling item at the balance date. As part of the year-end process and in the course of finalising the statutory financial statements, the Company adjusted and included this amount in the financial statements by reducing the bank account with corresponding increase to 'general stores' inventory. However, no detailed supporting documentation were made available to support the basis of this entry.

Had a detailed analysis been performed, some of these items may have required reporting through the profit and loss account. However, in the absence of any detailed review, it is not possible to quantify the amount that would have been reported through the income statement, if any. Accordingly, I am unable to confirm the accuracy and appropriateness of this entry and its consequential increase to the inventory balance and impact on the profit for the year.

**6. Trade Payables**

At balance date, the reconciliation of the Company's major trade payable accounts identified unreconciled variances, which amounted to approximately K12.6 million. For the purposes of the 2007 statutory financial statements, the amount was adjusted and included in the financial statements by increasing the trade payable account with corresponding increase to 'Inventory - fuel' account by K9.9 million and charge to income statement by K2.7 million. No detailed analysis nor supporting documentation were made available to me to support this treatment. Accordingly, I am unable to confirm the accuracy and appropriateness of this entry and its consequential impact on the inventory balance and profit for the year.

**7. Income Tax Balances**

The Company has not maintained satisfactory records to confirm the accuracy and completeness of income tax balances. Furthermore, the limitations discussed in the preceding paragraphs impact on the accuracy of the reported profit for the year and consequently impact on the accuracy of the income tax balances. Accordingly, I am unable to confirm the accuracy and completeness of income tax balances as disclosed in the 2007 financial statements.

**8. PNG Dams limited**

By way of National Gazette Number G114 dated 16 July, 2002, the carrying value to the dam and its related assets and liabilities held in the books of PNG Power were required to be transferred to PNG Dams Limited, a State-owned enterprise. A lease agreement had been put in place with PNG Dams Limited in respect of rental of the dams.

To date, the financial implication of the transfer had not been evaluated and the transfer had not been effect. Furthermore, PNG Limited had not been invoiced for the rental, hence no payment nor accrual had been made for this obligation.

## **9. Payroll System and Salaries and Wages Costs**

I have identified a number of matters in relation to the internal processes and procedures on the Company's Chris Payroll functions, which impacts on the accuracy and completeness of the payroll costs and whether the related statutory deductions including salaries and wages tax and superannuation deductions have been accurately and completely remitted to the appropriate authorities in accordance with the applicable legislations.

### **Disclaimer of Audit 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 am unable to and do not form an opinion as to whether the accompanying financial statements gives a true and fair view of the financial position of the Company as at 31 December, 2007, and of its financial performance and its cash flows for the year then ended.

- (a) Except for the limitation of scope in respect of the above qualification matters, I have obtained all the information and explanations that I consider necessary for the purpose of my audit; and
- (b) Proper accounting records and other records have been kept in accordance with the provisions of the *Companies Act, 1997*".

### **70.3.2 Audit Observations Reported to the Ministers**

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 PNG Power Limited for the year ended 31 December, 2007 was issued on 30 June, 2009.

My report contained the following observations in addition to the qualifications expressed in paragraph 70.2.1 above.

#### **1. Credit Control and Debt Management requires Significant Improvement**

At the balance date, the Company was owed approximately K81 million by its corporate and household customers for electricity consumption, out of which K35 million or 43% was considered doubtful and provided for. An age analysis indicated that approximately K42 million of the total debt was in 150 days or 6 months plus category, suggesting that credit control and debt management requires significant improvement. A number of measures are in place including a dedicated debt collection team and legal proceedings but these measures do not appear to improve the debt profit significantly and the associated credit risk.

*The Management has since advised that the upgraded Net DB System is now providing monthly debt reports for Centres. Credit and Debt Control staff are monitoring activity and credit officers are now traveling regularly to Centres for training and hands on assistance to Centres.*

## **2. Procedures and Processes Over Billing / Revenue System**

A number of observations were made in relation to the gentrack billing system which suggests that the internal control processes and procedures pertaining to the current billing system needs to be strengthened to avoid risk of revenue losses and other irregularities. In fact, the Company continues to experience significant revenue losses through various factors, including illegal connections. Average power loss for ratio for 2007 was 17% (2006: 17%) which equated to around K81 million. A high loss ratio of 26.5% was experienced in August and a low of 10.5% in November. The losses are considered significant and should require appropriate strategies to be considered and implemented.

Issues include: incorrect tariff rates being used to bill customers, inadequate control over meter equipments, faulty easipay meters not replaced on a timely basis, unregistered easipay customers not investigated and validated on a timely basis, inadequate documentation over new electricity connections and meters on estimate basis not finalised on a timely basis. Furthermore, there is no evidence of management reports, such as exception reports being utilised on a consistent and timely basis to identify and resolve billing related issues.

The Management has responded as follows; *Observation acknowledged and specific measures have been taken to improve the internal processes and procedures relating to the gentrack billing system.*

## **3. Procedures and Processes Over Purchase and Payables System**

The following observations were made in relation to the internal processes and procedures pertaining to the Purchase Payables Cycle:

- Supplier statement reconciliations identified significant unreconciled variances between the supplier statement and the company's accounts payable ledger at the balance date. Supplier invoices and payments were entered into the wrong period which contributed to the supplier statement reconciliations;
- Trade creditors ledgers recorded a number of overseas creditors and outstanding invoices amounting to appropriately K179,000, oldest items dated back to 2003. Given the aging and given that overseas suppliers are prepaid before goods and services are provided, it is unlikely that this represents genuine outstanding unpaid invoices;

- The Bank reconciliation identified significant bank drafts made to overseas suppliers but there appear to be a lack of effective coordination between the accounts, expenditure and logistics to ensure that bank draft payments are monitored to ensure that the intended goods or services are received within a pre-agreed timeframe;
- The cheque register is not properly maintained to document sign off by respective recipients of cheques issued out of the Port Moresby head office;
- A number of employees who have access to approving both the purchase requisitions and also have access to approving purchasing orders. Furthermore, certain unauthorised employees had access to the raising requisitions and purchase orders. Ineffective segregation of duties and inappropriate access may lead to irregularities; and
- Noted instance where former employees still had access to approving purchase requisitions.

The Management has responded as follows; *Comments are noted, processes are currently being reviewed and corrective actions to fix 'loop-holes' in control and processing are being taken.*

#### **4. General ledger control account reconciliations**

General ledger control account reconciliations is one of the key internal control process to maintain the integrity of the financial ledger, provided it is performed on a timely basis with adequate review by a senior and independent personnel. I made the following observations which suggest that the control account reconciliations process need improvement:

- A number of control account reconciliations were not evidenced as properly reviewed and authorised;
- Reconciliations were not performed on a timely basis. For instance, trade payable control account reconciliations for the months January, June and November, 2007 were evidenced as prepared in December 2007 and checked and approved in January 2008, and the year end bank reconciliation were performed in late March, 2008;
- A number of key control account contained significant reconciling items including the main operating bank account and the capital project accounts;
- A number of account balances contained items that may be considered 'long outstanding'. For instance, other creditors contained items with transactions dates going back to 2003 - 2006, and capital advance account included advances receipted from customers in the 1980s and 1990s; and
- Fuel stock was not properly reconciled with physical quantities at the balance date.

The Management advised as follows; *General Ledger reconciliations are done on a monthly basis and reviewed monthly. Every effort is taken to clear open/unreconciled items within 30 days of identification. Trace details are recorded. Sub ledger reconciliations are also done but reviewed by respective Ledger Managers. In view of audit findings, management will now review sub ledger reconciliations and processes of review.*

## **5. Compliance with filing of Statutory Returns**

The Company is subject to a number of statutory regulations which required certain returns to be lodged with the respective authorities. To date, the following returns remain outstanding and consequently, it exposes the Company to penalties and other adverse consequences.

### **a) Corporate Tax Returns**

These returns are required to be lodged with the Internal Revenue Commission within six months of the balance date. The last Company tax return was lodged in February, 2008 in respect of the 2004 financial year. Returns for the years 2005, 2006 and 2007 remain outstanding.

### **b) GST Returns**

These returns are required to be lodged with the IRC within 21 days of the month. Whilst the 2007 returns appear to be lodged on a monthly basis, they were not lodged within the 21 day requirement. Also the returns for the years 1999 - 2004 were not lodged and the IRC calculated retrospectively and imposed a bill of K24 million on the Company. This charge is being repaid at K500,000 per month.

### **c) Business Withholding Taxes**

The Company engages and receives services from various consultants. Whilst the applicable withholding taxes has been withheld from payments made to these consultants, the withheld amounts have not been remitted to the IRC within the 14 days following the month end.

The Management has responded as follows; *Through our tax agents we have arranged with IRC to have all outstanding tax returns lodged before the end of 2008. Tax return for 2004 has just been lodged. GST returns for current period are lodged within required timeframes. However, we are paying each month an amount of K500,000 under agreement with the IRC for outstanding GST claims. Comments noted for Withholding Tax.*

## **6. Fuel Stock requires better Control**

Fuel remains one of the significant costs of the Company. Accordingly, effective controls are required to monitor and manage its usage. However, we noted no evidence of system quantities with physical readings, independently verified by the head office personnel. Furthermore, some of the centres reported negative fuel on hand at the balance date, albeit immaterial.

The Management has responded as follows; *Our Accountant advises that a fuel reconciliation was provided for the end of December. At the end of each month PPL reconciles purchases against fuel used as an opening stock to calculate closing stock and monthly costs. Further schedules of prepaid stock for each centres are produced for cash flow purposes. This is important part of the monthly reporting process.*

## **7. CHRIS Payroll**

The following matters, pertaining to the Company's Chris Payroll System came to my attention:

### **a) Salary sacrifice for superannuation**

Instances of salary sacrifice made for superannuation savings for the entire gross wages with no salary taxes deducted and remitted to the Internal Revenue Commission.

### **b) Nil superannuation deductions**

Instance whereby no deductions were made for superannuation contribution for some employees for some pay periods during the year.

### **c) Gratuity Payouts**

Instances whereby gratuity payouts were transferred to superannuation savings with no salary taxes calculated, withheld and paid to the Internal Revenue Commission.

### **d) Allowances and Tax Calculations**

Certain employees had received cash allowances but these were not included in the taxable income with related wages taxes calculated and remitted to the Internal Revenue Commission, as required by the *Income Tax Act, 1959*.

An independent Consultant was engaged to review the executive payroll system which identified certain weaknesses in the processes and procedures relating to payroll system, which included the items identified above.

I also noted instances whereby the personnel files were not properly maintained to document details such as pay rate changes, authorisation of employment and authorisation for overtime payments. Furthermore, no timesheet system is maintained, as required by the Company Policy.

*The Management has since advised that report is run on a fortnightly basis, after each pay run. Any exceptions are highlighted by the Systems Administrator to Human Resource Manager Services of Manager Finance. Comments noted for Overtime sheets and filing. Timesheets are a management requirement and comments are noted for management action.*

## **8. Accounting Manual**

Currently, the Company does not have an accounting manual that can be accessible to and used by the staff in dealing with accounting / financial matters affecting the Company. I understand that the management is working on this and will be rolled out as and when completed.

## **9. Compliance with External Borrowings**

During 2006, the Company entered into an agreement and secured external borrowings to finance its capital projects and meet working capital requirements. These borrowings are subjected to a number of covenants and a number of them have not been complied with, although, as I understand it this has not affected the availability of these facilities.

However, the Company's Board and Management should understand and ensure compliance with all terms and conditions under which these borrowings.

## **10. Information Technology - Review for Effectiveness and Efficiency**

I undertook a general audit of the Information Technology (IT) Systems and made a number of observations on the efficiency and effectiveness of the current IT Systems.

- a) A formal IT Risk Assessment has not been performed at PNG Power and IT risks are handled in a reactive, rather than proactive, manner.
- b) Some of the key issues identified by the Management were communicated in a formal manager including feedback on control weaknesses (eg. Issues with system access or backups) and operational issues and Communication between IT and the Board on key IT issues.
- c) While a high level backup policy exists, there are no detailed backup and recovery procedures for Oracle Financials, Easy Pay, CHRIST 21 and Gentrack.
- d) PNG Power does not have a formally documented policy on its key aspects of IT operations, including Business Continuity Plan (BCP), Disaster Recovery Plan (DRP) Change Management Policy and IT Security.
- e) Files from Gentrack and EasyPay are manually imported into Oracle Financials on a regular basis. Security over the files is not ensured between the time of export from the source system and the time of import into Oracle Financials. The files are stored in directories that are accessible by approximately 100 end user accounts.
- f) Certain terminated employees still has access to the system. Furthermore, 1 user had access to Oracle financials as well as the network.
- g) Management do not perform formal, periodic user access, although these are believed to be done on an ad-hoc basis.

- h) Gentrack and EasyPay have weak password controls. The system does not support a strong password policy, whereby a minimum length, complexity and requirement to regular change passwords is mandated.
- i) The Windows network password and lockout policy does not meet best practice guidelines.

To maintain integrity and security over the Company's Management System and data current IT Systems and operations require strengthening.

The Management has responded as follows; *Issues raised have been considered and strategies developed to address them, where applicable.*

#### **70.4 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, 2008 was in progress.

## **71. POST PNG LIMITED**

### **71.1 INTRODUCTION**

#### **71.1.1 Legislation**

Post PNG Limited was incorporated on 24 December, 1996 under the *Companies Act, 1997*. This Company was formed following the National Executive Council 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 Papua New Guinea Telecommunication Authority (PANGTEL).

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the Post and Telecommunication Corporation (PTC) relating to Postal Services were, as per the allocation statement approved by the Minister for Communications, transferred on 31 December, 1996 at the net book value to Post PNG Limited. Post PNG Limited is a 100% state-owned Company and it commenced trading on 1 January, 1997.

#### **71.1.2 Objects of the Company**

The primary objects 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;
- to manufacture and market postage stamps and philatelic products and other products for use in connection with services provided by Post PNG;
- to provide money transfer services within The Independent State of Papua New Guinea ("PNG") and between PNG and other places;
- to engage in research relating to postal products and activities;
- to provide packet and parcel carrying services;
- to provide courier and freight services;
- to provide mail house, documents exchange and contract mail management services;
- to carry on any business or activity that is related, incidental, ancillary or complementary to the provision of domestic and international postal services;
- to provide funds 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 and other like services and operate a savings bank; and
- to perform functions relating to the provisions of postal services in a manner consistent with PNG's obligations under any convention.

## 71.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 71.2.1 Comments on Financial Statements

In accordance with the provisions of the *Companies Act, 1997*, my report for the year ended 31 December, 2008 was issued on 25 June, 2009. The report did not contain any qualification.

### 71.2.2 Audit Observations Reported to the Ministers

My report to the Ministers under Section 8(2) of the *Audit Act, 1989, (as amended)*, on the Company's financial statements for the year ended 31 December, 2008 was issued on 17 July, 2009. The report contained the following matters.

#### 1. Adherence to SCMC Act 1998

The *Salaries and Conditions Monitoring Committee (SCMC) Act 1998* was not adhered to by Post (PNG) in regard to salaries and conditions of employment of its employees since prior years in spite of the stipulations of the Act that:

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

I recommended management to adhere to the requirements of the SCMC Act and the management in response disputed my recommendation as follows:

*“Management does not believe that the Salaries and Conditions Monitoring Committee (SCMC) Act, 1998 applies to Post (PNG) Limited. Management held this opinion during the 2001-03 audits which also advised Post (PNG) of non-compliance with the Public Finances (Management) Act, 1995.*

*Under the various amendments to the IPBC Act of 2002, we understand SCMC and PFM Acts apply to public authorities. We understood Post (PNG) is not deemed a “public authority” but a “business enterprise.” We appreciate alternative legal opinions vary in their perspectives subject to their missions and/or mandates. To this end we had sought legal opinion during 2001-03 audits which support Post PNG's position in principle on these two (2) Acts (SCMC and PFM).”*

#### 2. Goods and Services Tax on Commission Income

I noted that Post (PNG) travel express division had not raised separate GST invoices on commission income from various airlines and therefore no GST was recognized on commission income. I also noted that due balances for respective airlines had been remitted net of the commission. This was in non-compliance with the PNG tax regulations.

I recommended that management requires to raise GST invoices on commission income and remittances to be made net of commission and GST on commission to respective airlines.

The Company responded to my concern as follows:

*“Management accepts that Travel Agents to be in accordance with the GST requirements should raise separate GST invoices for the commission payable by the airlines to the Travel Agents. However, it was important to note that it is an established practice in PNG that payments made to airlines by all Travel Agents in PNG are net of the commission and therefore no GST is charged.”*

### **3. Tax Written Down Value of Fixed Assets**

My review of tax written down value of fixed assets schedule indicated that there was a potential misstatement in the tax effect accounting of the company. This was due to the fact that the revalued assets were incorrectly classified as assets under cost and depreciated for the tax purposes during the year. I did not have proper information to quantify the impact of tax depreciation for revalued assets and the final impact on the income tax expenses of the company. Improper calculations of tax effect entries may result in misstatements in the financial statements.

I recommended that management should review tax written down value of fixed assets schedule in detail and ensure the fixed assets were properly classified at cost and at revaluation. The tax depreciation value should only be included the depreciation on cost of fixed assets.

Management responded to my observation as follows:

*“Management accepts this issue. As part of 2008 Tax Return preparation we were undertaken a complete review of the Fixed Assets Schedule to ensure that the assets tax bases and depreciation were correctly classified.*

*The issue arose from the revaluation of assets on 31<sup>st</sup> December 2007. Accordingly, it did not affect prior year tax returns. Management would ensure that the review of the fixed assets tax bases was completed prior to the filling of the tax returns by 30<sup>th</sup> June 2009.*

*Though Management had not finalized the review we did not believe that the misstatement was material.”*

## **72. TELIKOM (PNG) LIMITED AND ITS SUBSIDIARIES**

### **72.1 INTRODUCTION**

#### **72.1.1 Legislation**

Telikom (PNG) Limited was incorporated under the *Companies Act, 1997*. This Company was formed following the National Executive Council 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 Papua New Guinea Telecommunication Authority (PANGTEL).

As a result of the NEC Decision, all assets, rights, liabilities, staff and regulatory powers and business of the Post and Telecommunication Corporation (PTC) relating to Telecommunication Services were, as per the allocation statement approved by the Minister for Communications, transferred on 31 December, 1996, at the net book value, to Telikom (PNG) Limited. Telikom (PNG) Limited is a 100% state owned Company and it commenced trading on 1 January, 1997.

#### **72.1.2 Objects of the Company**

The primary objects of the Company are:

- to be the successor Company to the Telikom Divisions of Post and Telecommunication Corporation within the meaning of and for the purposes of the *Telikom PNG Limited Act*;
- to supply telecommunication services within Papua New Guinea and between Papua New Guinea and other places;
- to carry on any business or activity relating to telecommunications either inside or outside Papua New Guinea;
- to publish telecommunications directories, and to supply directory information service;
- to supply, install and maintain customer equipment and customer lines;
- to develop, manufacture, market and supply facilities and software;
- to supply value added services;
- to 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;
- to carry on any business incidental to telecommunication;
- unless otherwise advised to the contrary by the Minister acting in accordance with a directive of the National Executive Council:
  - (i) To act as an adviser to the Government of Papua New Guinea on matters relating to telecommunication activities in Papua New Guinea;

- (ii) To represent Papua New Guinea as a member of, and actively participate, in international bodies concerned with the administration of telecommunication services;
  - (iii) To enter into international agreement relating to telecommunication activities;
  - (iv) To perform functions relating to the provision of telecommunication services in a way consistent with PNG's obligations under any convention; and
- to 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.

### **72.1.3 Subsidiaries**

The subsidiaries of Telikom (PNG) Limited are Kalang Advertising Limited, Pacific Mobile Communication Co. Limited and PNG Directories Limited. Comments in relation to these subsidiaries are contained in paragraphs 74A to 74C of this Report.

## **72.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

### **72.2.1 Comments on Financial Statements**

My reports in accordance with the provisions of the *Companies Act, 1997* on the financial statements of the Company for the years ended 31 December, 2007 and 2006 were issued on 29 May, 2009 and 28 January, 2009 respectively. These reports contained similar qualifications, hence, only the 2007 report is reproduced below:

#### **“QUALIFICATIONS**

##### **Significant Uncertainty Regarding Litigation - Gabaka Land**

Included in Property, Plant and Equipment was an amount of K6,763,000 relating to land situated at Gabaka Street, Port Moresby. The Company is the defendant in a lawsuit whereby Post PNG Limited, PANGTEL and PNG Land Limited were claiming an interest to this land. The ultimate outcome of the matter could not presently be determined and no provision for any liability that may result was made in the financial statements.

##### **Non-Compliance with International Financial Reporting Standards**

*Revaluation of Property, Plant and Equipment*

As disclosed in *Note 19* of the financial statements - Revaluation of Property, Plant and Equipment, the management performed a revaluation of property, plant and equipment in the current year, however, the calculation was not finalised at 31 December, 2007. The last revaluation of property, plant and equipment was undertaken in 2000. This valuation, in my opinion, was not in accordance with International Accounting Standard 16 *Property, Plant and Equipment (IAS 16)*. Where the revaluation model is adopted, IAS 16 requires that the item of property, plant and equipment, whose fair value could be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any accumulated depreciation and subsequent impairment losses. IAS 16 also requires that revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at balance date. Accordingly, I was unable to satisfy myself as to the fair value of the property, plant and equipment at year end.

#### *Consolidated Financial Statements*

The Company did not prepare consolidated financial statements as required under *International Accounting Standards 27 (IAS 27) - Consolidated and separate Financial Statements* and the *Companies Act, 1997*. Accordingly, I was unable to quantify the financial impact, if any, on the Company's financial statements.

#### **Statutory Records**

The *Companies Act, 1997* requires certain Statutory Records to be maintained by the Company. The Directors' interest register was not updated to reflect the current Directors' interests. I was also not provided with an interest register of one of the recently appointed directors.

#### **Qualified Audit Opinion**

In my opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraphs, and the departures from *International Financial Reporting Standards*:

- (a) the financial statements of Telikom (PNG) Limited have been properly drawn up so as to give a true and fair view of the financial position of the Company as at 31 December, 2007 and of the results of its operations, changes in equity and cash flows for the year ended on that date;
- (b) I have obtained all the information and explanations that I required; and
- (c) proper accounting records and other records have been kept in accordance with the provisions of the *Companies Act, 1997*."

#### **72.2.2 Audit Observations Reported to the Ministers**

My reports 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 Company for the years ended 31 December, 2007 and 2006 were issued on 29 May, 2009 and 28 January, 2009 respectively. In addition to the comments expressed in paragraph 72.2.1 above, these reports contained similar comments, hence, 2007 report is reproduced below:

### **Outstanding Capital Work in Progress**

I noted that the Capital Work in Progress programmes totaling K2.02 million were carried over for more than four (4) years. There were no movements within these accounts and therefore, I was unable to ascertain whether these were valid project amounts to be carried forward.

*I recommended management to capitalize these projects and to start depreciating them immediately. Further, management should ensure proper review processes were in place to monitor projects' progress and capitalization of completed projects.*

*Management commented that these projects were currently under review, with the intention to capitalizing all completed projects and to propose write off of all abandoned projects during the years 2008 and 2009.*

### **Home Ownership Scheme (HOS) payouts to questionable third parties**

My review on housing payments, based on the samples tested for verification, revealed the following anomalies:

#### HOS Payments made to relatives

A Payment of K16,000 was paid to an employee's mother. I was unable to ascertain the validity of this payment. The employee resigned in October 2006. The payment may be unlikely to be recovered.

Another employee fully utilized her loan of K22,000 and had a closing balance of K17,000 at 31 December, 2007. I noted that the payment of K22,000 was made to her mother. I was not provided with supporting documents such as transfer of title to validate these transactions.

In both situations I was informed during the discussion with the management that an 'Indemnity Agreement' was signed per Telikom Policy for the payment made. An 'Indemnity Agreement' was made between Telikom and the employee in the event that the identity/ownership of the property is in question, stating that if something went wrong with the purchase the responsibility rests solely with the employee.

Further, I also noted that no proper back ground checks were performed by Telikom (legal and HOS) before payments were made. As a result, I was unable to establish if the payments were valid and determine if the transaction served the purpose of HOS, that is to assist Telikom's employees to acquire houses.

### **Double Dipping**

From my review of the rental expenses during the year I noted employees who had benefitted from the HOS loan also benefitted from rental accommodation. According to Telikom's policy, the staff who had benefitted from HOS were not to be provided company rental accommodation. The staff rental expenditure paid out monthly totaled K26,655 or K319,860 yearly.

I also noted that two of the employees who benefitted separately from rental accommodation were married and logically should have been sharing the same property. As a result, Telikom incurred additional costs due to abuse of HOS by concerned employees.

*I recommended management to ensure that established procedures were followed before approval of rental accommodations. In addition, effective flow of information within departments was maintained and appropriate reviews were carried out for cost-effective business decisions to be made.*

*Management accepted my recommendation and noted that proper screening of applications including physical on site inspections would be done from 2008 onwards.*

### **Monthly Closing of Financials**

During my examination, I noted that there was a clear evidence of lack of preparation, review and approval of monthly general ledger reconciliations for all the general ledger accounts. The lack of review had indicated significant deficiencies in the accounting records as follows:

- ▶ reconciling items were outstanding for a long period;
- ▶ proper month end processes were not maintained, resulting in general ledger balances potentially being misstated;
- ▶ roll forward of general ledger balances to subsequent months may not be performed correctly, resulting in opening balances being materially misstated; and
- ▶ significant number of journal entries were raised and posted at year end to correct entries posted during the year.

*I recommended management to formalise an efficient procedure manual outlining the procedures for month end reconciliation and closing of the general ledger accounts. Training should be provided and the approved procedure manual must be communicated to all staff.*

*Management accepted my recommendations and noted that they would implement monthly accounting close off timetable and would formalise a procedure manual in 2009.*

## **72.3 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, 2008 was in progress.

## **72A. KALANG ADVERTISING LIMITED (A SUBSIDIARY OF TELIKOM PNG LIMITED)**

### **72A.1 INTRODUCTION**

#### **72A.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.

#### **72A.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.

### **72A.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

#### **72A.2.1 Comments on Financial Statements**

In accordance with the provisions of the *Companies Act, 1997*, my report on the Company's financial statements for the year ended 31 December, 2005 was issued on 1 October, 2008. The report contained the following qualifications:

#### **“QUALIFICATIONS**

##### **Limitations on the scope of my audit**

##### ***Opening balances and comparative information***

Due to the disclaimer of opinion issued in respect of the year ended 31 December, 2004, and because of the other limitations as noted below, I was unable to satisfy myself as to the opening balances. I was also unable to quantify the effects of misstatements, if any, which might had a bearing on the results of operations and cash flows of the Company for the year ended 31 December, 2005. Further, I was unable to perform alternative and reasonable audit procedures to satisfy myself as to the measurement, accuracy and completeness of the opening balances.

***Prior Year Adjustments***

Note 21 to the financial statements shows a balance of K973,355 relating to prior year adjustment for the correction of errors in the opening balances. The treatment of this adjustment in the financial statements is not in accordance with the requirements of *International Accounting Standards 8 (IAS 8) - Accounting Policies, changes in Accounting Estimates and Errors*.

***Related Parties***

While certain disclosures were made as required under *International Accounting Standards 24 (IAS 24) - "Related party Disclosures"*, I was not provided with sufficient appropriate audit evidence such as a list of directors' interests transactions between the Company, its directors or director - related entities or other related parties, and therefore I was unable to satisfy myself as to the completeness, accuracy or appropriateness of related party transactions as disclosed in Note 13 to the financial statements.

***Statutory Records and Board Minutes***

I was not provided with the statutory records including minutes of board meetings, if any, of the Company for the year ended 31 December, 2005. Accordingly, I was unable to determine whether all the requirements of the *Companies Act, 1997*, had been complied with and whether all statutory returns had been lodged with the concerned authorities.

***Taxation***

I was unable to determine the full extent of liabilities in respect of goods and services and salaries and wages taxes, plus the penalties, if any, that would be assessed by the Internal Revenue Commission (IRC). Further, the Company has not prepared any tax-effect calculations and as such, I was unable to assess whether or not the financial statements accurately reflect the Company's tax position as at 31 December, 2005.

***Accounting and Related Records***

Due to the state of the records maintained by the Company, I was not able to perform all my planned audit procedures. As a result, I was unable to form an opinion as to the existence, measurement and completeness of the following account balances as at 31 December, 2005:

▶ Inventory	K 39,592;
▶ Trade and Other Receivables	K1,154,010;
▶ Trade & Other Creditors	K2,521,690;
▶ Long Service Leave	K 62,008; and
▶ Fixed Assets	K 277,081.

### ***Revenue and Expenses***

I had not obtain sufficient and appropriate evidence in support of the total revenue and expenses of K1,874,278 and K1,734,596 respectively. Accordingly, I was unable to satisfy myself as to the occurrence, measurement, completeness and accuracy of revenue and expenses for the year.

### ***Cash Flow Statement***

Due to the adjustments relating to the correction of errors in the opening balances, the cash flow statement did not reconcile to the year end cash balances and had a variance of K654,288. I was unable to ascertain the validity and appropriateness of the cash flow calculations.

### **Disclaimer of Opinion**

In my opinion, because of the existence of the limitations on the scope of my work as described in the qualification paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitations not existed:

- (a) I am unable to and do not express an opinion as to whether the financial statements of Kalang Advertising Limited are drawn up as required by the *Companies Act, 1997*, and presented in accordance with International Financial Reporting Standards and Statements of Accounting Standards of the Certified Practising Accountants of Papua New Guinea and other statutory requirements so as to give a true and fair view of the Company's financial position as at 31 December, 2005 and of the results of its operations, changes in equity and its cash flows for the year then ended; and
- (b) I have not been given all the information and explanations and assistance necessary for the conduct of my audit.

In my opinion, the Company has not kept proper accounts and records.

### **Inherent Uncertainty Regarding Continuation as a Going Concern**

Without further qualification to the opinion expressed above, I had drawn attention to Note 1(a) of the financial statements which disclosed significant uncertainty as to whether the Company would be able to continue as a going concern and whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements."

#### **72A.2.2 Audit Observations Reported to the Ministers**

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 for the year ended 31 December, 2005 was issued on 1 October, 2008. Except for the qualifications and the comments referred to in paragraph 72A.2.1 above, the report did not contain any other matters of significance.

**72A.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, 2006 was in progress.

The financial statements for the years ended 31 December, 2007 and 2008 had not been submitted for my inspection and audit.

**72B. PACIFIC MOBILE COMMUNICATIONS COMPANY LIMITED  
(A SUBSIDIARY OF TELIKOM PNG LIMITED)**

**72B.1 INTRODUCTION**

**72B.1.1 Legislation**

Pacific Mobile Communications Company Limited was established under the *Companies Act*, as a wholly owned subsidiary of the Post and Telecommunications Corporation. It is now wholly owned by Telikom PNG Limited since the break-up of Post and Telecommunications Corporation into three organisations.

The Company was amalgamated with its Parent Company Telikom (PNG) Limited on 30 November, 2006.

**72B.1.2 Objects of the Company**

The main objective of the company is to serve as a vehicle for the introduction of high technology products and services for the benefit of Papua New Guinea. These services primarily include the introduction of mobile phones into the country under the trading name of Cellnet and more recently, the establishment of the Internet Gateway Service under the trading name of Tiare which commenced operation in May 1997.

Pacific Mobile Communications is further committed to the provision of ancillary services in the new and high technology areas including projects such as EDI (Electronic Data Interchange). The Company launched its digital GSM Network during mid 2003.

The company's objective is to ensure that Papua New Guinea stays in the forefront of modern technology available in the world today in these areas for the benefit of Business, Government and Educational Institutions throughout the country and for the advancement of the nation and of its people as a whole.

**72B.1.3 Functions of the Company**

The principal functions of the Company are to provide Mobile Phone Telecommunication services, Internet services and other value added telecommunication services to Papua New Guinea. Initially, an Analogue Mobile Phone Network was commissioned to operate up until the year 2000 with a state of the art Digital network incorporating highly advanced world standard features which were commissioned towards the end of 2003.

The aim of the company is to ultimately make services such as mobile phones available to ordinary Papua New Guineans, and to make the corporate pricing and marketing strategies cater for this ideal.

## 72B.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

### 72B.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 period ended 30 November, 2006 was issued on 24 March, 2009. The report contained the following qualifications:

#### “QUALIFICATIONS

##### **Current Account Telikom – K5,708,894 Cr**

The financial statements disclosed current account Telikom of K5,708,894 (2005: K5,681,847 Cr) as due to related parties. I was unable to sight an agreement governing interconnect charges and was therefore unable to verify the validity or the completeness of the amount recorded as due to Telikom (PNG) Limited. Further, I was unable to perform alternative procedures on these balances.

##### **Related Parties**

International Financial Reporting Standard (IAS 24) – *Related Party Disclosures* requires disclosure to be made of related party relationships as well as information on any transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements where such relationships exists. I was not provided with a list of directors' interests or transactions between the Company, its directors or director related entities, or other related parties. I was therefore, unable to satisfy myself on the completeness and accuracy of related party transactions as disclosed in Note 14 to the financial statements or the appropriateness of the transactions, if any, in accordance with relevant regulations applicable to the Company.

##### **Statutory Records**

The *Companies Act, 1997* requires certain statutory records to be maintained by the Company. The following were not kept by the Company:

- ▶ Directors Interest Register; and
- ▶ Register of Charges.

##### **Qualified Audit Opinion**

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the limitations on the scope of my work not existed, and except for the failure to keep the statutory records as described in the qualification paragraphs:

- (a) the financial statements of Pacific Mobile Communications Co. Limited (“Company”), have been properly drawn up so as to give a true and fair view of the financial position of the Company as at 30 November, 2006 and the results of its operations, changes in equity and cash flows for the period ended on that date;

- (b) I have obtained all the information and explanations that I required; and
- (c) proper accounting records and other records have been kept in accordance with the provisions of the *Companies Act, 1997*".

**72B.2.2 Audit Observations Reported to the Ministers**

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 Company for the period ended 30 November, 2006 was issued on 24 March, 2009. Except for the matters referred to in the qualification paragraph 72B.2.1 above, my examination of the accounts and records revealed generally satisfactory results.

**72B.3 STATUS OF FINANCIAL STATEMENTS**

At the time of preparing this Report, the Company had already amalgamated with its Parent Company Telikom (PNG) Limited. That being the case, the 2006 audit report would be my last report to Parliament on this Company.

**72C. PNG DIRECTORIES LIMITED (FORMERLY E. H. O'BRIEN LIMITED  
- A SUBSIDIARY OF TELIKOM PNG LIMITED)**

**72C.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.

**72C.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS**

**72C.2.1 Comments on Financial Statements**

My report in accordance with the provisions of the *Companies Act, 1997* to the members of the Company on the financial statements for the year ended 31 December, 2007 was issued on 27 February, 2009. The report did not contain any qualification.

**72C.2.2 Audit Observation Reported to the Ministers**

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 for the year ended 31 December, 2007 was issued on 27 February, 2009. The results of the inspection and audit were generally satisfactory.

**72C.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, 2008 was in progress.