



Part 3

Report of the Auditor-General 2016

**on the Accounts of Provincial and Local-level Governments and
associated entities**

-
- Provincial Governments
 - Local-level Governments
 - Hospital Boards and Provincial Health Authorities
 - Business Arms and Subsidiary Corporations
 - Provincial Authorities
 - Other Audits



Part 3

Report of the Auditor-General 2016

**on the Accounts of Provincial and Local-level Governments and
associated entities**

-
- Provincial Governments
 - Local-level Governments
 - Hospital Boards and Provincial Health Authorities
 - Business Arms and Subsidiary Corporations
 - Provincial Authorities
 - Other Audits



Phone: (+675) 3012200 Fax: (+675) 325 2872 Email: agopng@ago.gov.pg Website: www.ago.gov.pg

29 September 2017

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

Dear Mr. Speaker

In accordance with the provisions of Section 214 of the *Constitution of the Independent State of Papua New Guinea*, I have the honour to present to the National Parliament Part III of my Report.

The Part III 2016 Report covers the financial years ending 2016. This Report embodies the results of audits of each of the Accounts of Provincial Governments, Local-level Governments, their Business Arms and Statutory Corporations, Provincial Authorities, Trust Funds and Hospital Boards and Provincial Health Authorities.

Yours sincerely,

PHILIP NAUGA
Auditor-General

Table of Contents

FOREWORD	1
1. ROLE OF THE AUDITOR-GENERAL AND AUDIT MANDATE	3
1.1 Role of the Auditor-General.....	3
1.2 Mandate of the Auditor-General	4
2. AUDIT AND DELIVERY OF GOVERNMENT PROGRAMS	6
3. SCOPE OF AUDIT	7
3.1 Introduction	7
3.2 Appointment of an Agent Auditor	7
3.3 Dispensation of Audits.....	8
4. RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS	9
4.1 Audit Opinion	9
4.2 Financial Statements of Provincial and Local-level Governments	10
4.3 Financial Statements of Hospital Boards and Provincial Health Authorities	15
4.4 Financial Statements of Business Arms and Subsidiary Corporations	17
4.5 Financial Statements of Provincial Authorities	17
4.6 The Role of the Treasury Offices	18
4.7 Other Audits	17
4.8 Audit Fees.....	19
5. CONTROL ENVIRONMENT	20
5.1 Introduction	20
5.2 Responsibilities of Management	20
5.3 Responsibility of the Auditor-General	21
5.4 Details of Control Issues	21
5.5 Conclusion	26
6.0 RESULTS OF AUDITS PER PROVINCE	28
6.1 AUTONOMOUS REGION OF BOUGAINVILLE.....	28
6.2 CENTRAL PROVINCE.....	30
6.3 EAST NEW BRITAIN PROVINCE.....	40
6.4 EAST SEPIK PROVINCE.....	57
6.5 EASTERN HIGHLANDS PROVINCE	73
6.6 ENGA PROVINCE.....	80
6.7 WESTERN PROVINCE.....	86
6.8 GULF PROVINCE	102
6.9 HELA PROVINCE	106

6.10	JIWAKA PROVINCE	107
6.11	MADANG PROVINCE.....	108
6.12	MANUS PROVINCE	114
6.13	MILNE BAY PROVINCE.....	116
6.14	MOROBE PROVINCE.....	122
6.15	NEW IRELAND PROVINCE	129
6.16	ORO PROVINCE	164
6.17	SANDAUN PROVINCE	173
6.18	SIMBU PROVINCE	187
6.19	SOUTHERN HIGHLANDS PROVINCE	192
6.20	WEST NEW BRITAIN PROVINCE.....	198
6.21	WESTERN HIGHLANDS PROVINCE	204
7.	LEGAL FRAMEWORKS	211
7.1	Organic Law on Provincial Governments and Local-level Governments	211
7.2	Provincial Governments and Local-level Governments	211
7.3	Hospital Boards and Provincial Health Authorities	212
7.4	Business Arms and Subsidiary Corporations	212
7.5	Provincial Authorities	212
7.6	Other Audits	213
7.7	Dispensation of Audits	213
8.	STATUS OF FINANCIAL STATEMENTS	215
8.1	Provincial Government	215
8.2	Local-level Government.....	216
8.3	Hospital Boards/Health Authorities	217
8.4	Business Arms & Subsidiary Companies	218
8.5	Provincial Authorities	219
8.6	Trusts and Funds	220

FOREWORD

My Report to the National Parliament is being presented in four parts as follows:

- Part I of my Report deals with the Public Accounts of Papua New Guinea;
- Part II of the Report deals with National Government Departments;
- Part III (this Part) of my 2016 Report deals with audits of the Provincial Governments, their Public Bodies and Subsidiary Corporations, Local-level Governments, Provincial Authorities, Provincial Health Authorities (Hospital Boards) and Trust Funds. With effect from 1996 an audit opinion on the financial statements of each Provincial Government and Urban Local-level Government is being issued in accordance with the requirements of the *Organic Law on Provincial Governments and Local-level Governments*; and
- Finally, Public Bodies and Subsidiaries, National Government-owned Companies and National Government's shareholdings in Other Companies are covered in Part IV of my Report.

Part III Report

Readers of this Report should note that my Part III Report covers the financial years ending 2016 and some previous years' financial statements submitted subsequently. The Report covers the audit of Provincial Governments, Urban Local-level Governments, Hospitals/Provincial Health Authorities, Business Arms, Authorities and Trust Funds.

The scope of audits included reviews of governance arrangements and examinations of internal controls in place at the time the audits were conducted. All audit findings have been reported to entity management for their comments.

The Report provides a summary of significant internal control weaknesses identified, and types of audit opinions expressed. Major financial and accounting issues which required remedial actions to be taken by the agencies concerned have been summarized in this part of my Report. These issues have been communicated to the respective Provincial Administrators or Executive Management through the Management Letters.

As required, and in addition to the Management Letters, audited financial statements together with the audit opinions where applicable, were also provided to the relevant Minister(s) and to the Department of Provincial and Local-level Government Affairs.

Making this Report publicly available

This Report will be made available to the public through the AGO website (www.ago.gov.pg) once it has been tabled in the Parliament.

1. ROLE OF THE AUDITOR-GENERAL AND AUDIT MANDATE

1.1 Role of the Auditor-General

Section 214 of the *Constitution of the Independent State of Papua New Guinea (Constitution)* prescribes that the primary functions of the Auditor-General are to inspect, audit and report to the National Parliament on the Public Accounts of Papua New Guinea (PNG) and on the control of and on transactions with or concerning the public moneys and property of PNG. The *Organic Law on Provincial Governments and Local-level Governments (Organic Law)* extends these provisions to cover Provincial Governments and Local-level Governments.

Section 113 of the *Organic Law* requires the Auditor-General to establish a Provincial Audit Service and appoint a Provincial Auditor and additional officers in each Province. At the time of this Report, no such Provincial Audit Services have been established in any of the Provinces due to budgetary limitations confronted by the PNG Auditor-General's Office (AGO). These constraints greatly affect my resources and capability to service audit clients based in the regions. The Office however, had established Regional Audit Offices in Port Moresby (Southern), Kokopo (NGI), Mount Hagen and Goroka (Highlands) and Lae (Momase).

My Office is currently moving to strengthen the regional offices with adequate staff and logistics in order to effectively perform my mandated audit functions and responsibilities at the sub-national level of Governments and other Government entities.

Section 213 of the *Constitution* provides for the independence of the Auditor-General in the performance of his constitutional duties in that the Auditor-General is not subject to the control or direction of any person or authority. This provision connotes an atmosphere of complete objectivity and impartiality in the discharge of the audit responsibilities.

Other than staff and administrative control of the AGO, neither the *Constitution* nor the *Organic Law* provides for any executive or directive powers by the Auditor-General over the organizations subject to audit. Although the evaluations and investigations conducted under the direction of the Auditor-General assist management in detecting control and procedural weaknesses, the Auditor-General has no executive responsibility in relation to the formulation of accounting systems and policies or the setting of standards for administrative and accounting purposes as this may impede the independence and objectivity requirements of the Auditor-General in the execution of his primary audit function.

However, it has been the policy of this Office to enter into discussions with Provincial and Local-level Governments on matters relating to accounting systems, internal controls and administrative procedures in general, and to provide related documentation where possible. In providing such advice or information it is understood that the responsibility for executive decision making remains with the auditee organizations.

1.2 Mandate of the Auditor-General

Section 7 of the *Audit Act 1989* (as amended) provides for the Auditor-General to report to the Parliament on the results of audits undertaken. The Act specifically requires the Auditor General to specify

- Whether the financial statements, to which the report relates, are based on proper accounts and records;
- Whether the financial statements are in agreement with the accounts and records and whether they show fairly the financial operations for the period;
- Whether the receipt and payment and investment of moneys and the acquisition and disposal of assets during the year have been in accordance with the *Public Finances (Management) Act 1995(PFMA)*; and
- Such other matters arising out of the financial statements, to which the report relates, as the Auditor-General considers should be reported.

To meet these requirements I perform financial attest and regularity or compliance audits. The main objective of the attest audit is to express an opinion on the fairness of the financial statements, including compliance to disclosure requirements such as the format of the financial statements issued under Finance Instructions. Regularity audits are conducted with the main objective of ascertaining whether or not the expenditure had been applied for the purposes for which they had been authorized and that the expenditure conformed to the authority which governs it.

In compliance with Part V of the *Audit Act*, my Office is performing both attest and regularity audits concurrently and is responsible for **373** audits of different entities as shown in the table below:

ENTITY	No	Table	Pages
Provincial Governments	21	1	
Local-level Governments	322	2	
Provincial Health Authorities	21		
Business Arms	4	5	
Provincial Authorities	3	7	
Trusts and Funds	2	9	
TOTAL	373		

Provisions under the *Organic Law* as well as the *Audit Act* require that I furnish before 30 April of the following year, audit reports on the accounts of Provincial Governments and Local-level Governments to the Minister for Inter-Government Relations, the Minister responsible for Finance matters, Provincial and Local-level Governments concerned and the National Economic and Fiscal Commission.

I have endeavored to undertake audits to current status where possible within the resources available to me resulting in this 2016 Part 3 Report. However, there have been considerable difficulties in carrying out timely audits due to a number of factors including:

- Long delays and/or inaccurate presentation and disclosure of information in the financial statements by entities;

- Lack of experience, competency and cooperation of some Provincial Treasury, accounting personnel and the provincial administrative officers in the provinces;
- Administrative difficulties where the Provincial Treasurer does not report to the Provincial Administrator but to the Secretary for Finance;
- Delays in responding to issues raised in our Management Letters;
- Absence of proper and adequate accounting and subsidiary records on fixed assets and investments in the Business Arms of Provincial Governments; and
- Significant resource constraints of my Office, especially in regard to the conduct of the audits of Provincial Governments and their entities.

My Office endeavors to improve on the past performance, thus catching up on the backlog of audits and strives to constantly deliver quality output.

2. AUDIT AND DELIVERY OF GOVERNMENT PROGRAMS

I have carried out audits of Provincial Governments and Local-level Governments, Hospital Boards, Business Arms, Provincial Authorities and Other audits as mandated. These government entities are tasked to deliver government services to the people of Papua New Guinea.

Although my Report provides opinions on the financial affairs of these entities, other audit procedures performed by my Office give a picture of effectiveness of the delivery, by the public sector, of government policies and programs particularly their contribution to National Building through recovery, development and service delivery objectives of the Medium Term Development Strategies (MTDS) including:

- Welfare
- Health
- Economic Development and Growth
- Contribution to Nation Building
- Good Governance
- Rural Development
- Poverty Reduction
- Employment
- Strengthening Public Expenditure
- Management System including:
 - Fiscal Sustainability
 - Prioritisation of Resources, and
 - Cost effective implementation of programs.

In addition, my audit findings that have been repeatedly highlighted had shown a slow progress in making improvements to governance structures and public accountability mechanisms in relation to expending Public Finances. Without strong governance procedures in the public sector, effective and efficient service delivery as envisaged by the National Government will be difficult to achieve.

Besides the audit of financial statements, I have extended my audit programs into the audit of service delivery, performance audit and major public works projects to enhance my Office's ability to deliver reports to Parliament on how well and effective the government programs are being delivered.

3. SCOPE OF AUDIT

3.1 Introduction

In performance of the statutory audit responsibilities, the resources of this Office were directed primarily to the evaluation of internal controls, together with such other examinations as were considered necessary to examine the performance of financial operations with a view to assessing the reliability and integrity of financial data and to determine the extent of compliance with applicable laws, regulations and directives. The audit procedures applied were intended to reveal systemic weaknesses which would result in losses or errors, frauds and/or mismanagement of public funds.

The examination on a sample basis included review of corporate governance, the work of internal audit, appropriations management, revenue and payments, human resource management processes, cash management, asset management, advance management and trust account management.

All audits were planned and performed in accordance with the International Standards of Supreme Audit Institutions (ISSAI) as promulgated by the International Organization of Supreme Audit Institutions (INTOSAI) to obtain reasonable assurance whether the financial statements are free of material misstatement. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The nature of an audit is influenced by factors such as the use of professional judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. The audit is not required to search specifically for fraud and therefore, the audit cannot be relied upon to disclose all such matters. However, all audits were planned and executed so that I can have a reasonable expectation of detecting material misstatements resulting from irregularities, including fraud.

Compliance with relevant legislation is of paramount importance in safeguarding the State's assets. My audits included reviews and tests to ascertain whether key provisions of the *PFMA* and various Finance Instructions have been adhered to.

The audit covers provincial governments, local-level governments, hospital boards (provincial health authorities), business arms and subsidiary corporations, provincial authorities, trust funds and other audits as directed by me.

3.2 Appointment of an Agent Auditor

The provisions of the *Audit Act* allow the Auditor-General to appoint a Registered Company Auditor as agent to assist in discharging audit responsibilities as and when considered necessary. Contrary to these requirements, Provincial Governments and the management of their business arms have been engaging private auditing firms without my knowledge to carry out the audits of their businesses. Section 8(5A) of the *Audit Act* states clearly that “*A body which is liable to audit by the Auditor-General shall not appoint a Registered Company Auditor to carry out the functions and powers of the Auditor-General under the Constitution and this Act.*”

3.3 Dispensation of Audits

As mentioned in previous reports, this Office has continued to experience considerable difficulties in carrying out timely audits of entities in the Provinces for a number of years. The factors include long delays and/or submission of incomplete financial statements due to high turnover of accounting staff and/or lack of suitably qualified personnel in most, if not, all government agencies including provincial governments, local-level governments and hospital boards. Of particular concern was non-preparation of financial statements by a large number of Local-level Governments. These problems were further aggravated by limited manpower and financial constraints which continued to affect my Office, making it practically impossible to be able to carry out audits of number of entities. In view of the above circumstances number of audits had to be dispensed with consistent with *Audit Act* that allows me to dispense the audits. Details of audits dispensed are presented in Section 7.7 of this Report.

4. RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS

4.1 Audit Opinion

Financial statements audits are an independent examination of the financial accounting and reporting of Provincial Governments, Local-level Governments, Hospitals Boards and Provincial Health Authorities, Business Arms of Provincial Governments and other entities. The results of the examination are presented in this audit report, which expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein, fairly reflect the results of each entity's operation and financial position. The disclosures and management representations made in the financial statements by the entity are assessed against relevant Finance Instructions and accounting standards, and legislative and other reporting requirements.

It is generally accepted that a good indicator of the effectiveness of financial management processes is the timely finalization of the financial statements, accompanied by an unqualified audit opinion.

Every year, the entities enter into thousands of transactions in millions of Kina. As such, errors are inevitable and may go undetected. It is therefore, important to appreciate that in expressing my opinion, the absolute accuracy of the financial statements may not be guaranteed. However, in conducting the audits of the entity's financial statements, I seek to ensure that there is a reasonable assurance that the financial statements are free of material errors and misstatements.

In determining the audit of the entity's financial statements, two main factors are considered to determine the nature and extent of the work required. The first of these is the "materiality" level of the Kina amounts. This represents a threshold; if total errors fall below this threshold, the financial statements present information fairly; if they exceed this threshold and are not corrected, I refer to them as qualifications in my opinion. The second factor relates to "audit assurance". This represents the level of certainty and confidence that my audit will reveal total errors that will be equal to or exceed the materiality threshold.

At the conclusion of the audit, I determine whether the effect of undetected errors in the financial statements would mislead those who use the financial statements. If the effect is such that the financial statements are misleading, I include a qualification in my audit opinion.

An inability to form an opinion - commonly referred to as a "Disclaimer" - is expressed when a scope limitation exists and sufficient appropriate audit evidence to resolve the uncertainty resulting from the limitation cannot be reasonably obtained; and the possible effects of the adjustments that might have been required, had the uncertainty been resolved, are of such a magnitude, or so pervasive that I am unable to express an opinion on the financial report taken as a whole.

As reported in the past, only a handful of exceptional cases where Provincial Governments, Provincial Health Authorities and Business Arms of Provincial Governments were issued with audit opinions other than a disclaimer. The audit opinion reports issued to majority of

the entities during the current audit cycle however, were disclaimed. The reasons and the problems encountered are detailed in the paragraphs below.

4.2 Financial Statements of Provincial and Local-level Governments

I have concluded and reported that I was unable to form an opinion on virtually all Provincial and Local-level Government's financial statements. Whilst in the majority of cases the financial statements had been prepared in the format required by the Finance Instructions issued under the *PFMA*, I concluded that material errors, uncertainties and lack of adequate records resulted in the overall financial position and results of operations that were not reliable. As a result, I continue to report that I am unable to form an opinion.

The failure of the Provincial and District Administrators to promote measures and responsibilities for transparent and compliant spending of budget allocations continued to be a major factor that has contributed to ineffective financial management processes. However, whilst top management is tasked with effective management, control and accounting, the Parliament has the right to demand answers on accountability and governance issues.

Other factors affecting the poor level of financial management include:

- Lack of experience and the competency of Provincial Treasury and accounting personnel in the provinces;
- Considerable abuse and diversion of government money for a long period of time without consequential disciplinary proceedings.
- Absence of regular monitoring and review by the Department of Finance on the work of the Provincial/District Treasury, together with timely corrective action;
- Lack of coordination and communication, for example Provincial/District Treasurers not advising the Administrators on matters relating to the financial status of the Province; and
- A reduced incentive for efficient management of funding due to the Provincial/District Treasury being in control of processing but the Administrator being responsible for the outcome.

During this audit cycle my Office finalized and issued 15 audit reports to the Provincial Governments and 18 to Urban Local-level Governments. Details of these are presented in Section 8.1, Table 1 and Section 8.2, Table 3 respectively, Pages 216 - 218.

There are currently 321 Local-level Governments around the country (excluding the Local-level Governments of the Autonomous Region of Bougainville) as shown in Table 2 of Section 8.2, Page 217. Of these, there are 290 Rural Local-level Governments and 31 Urban Local-level Governments in existence.

As reported in my previous years reports, I was not able to carry out any audits of the Rural Local-level Governments accounts and records as required by the *Organic Law* due to financial and human resources constraints affecting my Office. I have satisfied myself that the revenue and expenditure of the Provincial Governments are largely grants, salaries and wages. No significant expenditures were incurred on major works and projects by the Rural Local-level Governments.

I have been able to carry out the audits of some of the major Urban Local-level Governments as they are located in the main headquarters of the Provinces. Audits of some Urban Local-level Governments were conducted for two to three years due to a backlog of audit in arrears. The results of controls testing are reported under Chapter 5 of this report under the respective Province headings.

The financial statements of both Provincial and Urban Local-level Government comprise a number of Statements and Appendices. Statements 'A', 'B', 'C', 'E', 'J' and 'K' are maintained by the entities' accounting system. Statements 'D', 'F', 'G', 'H' and 'I' are memorandum statements that are drawn from the accounting system, but are nevertheless financial statements in their own right that convey financial information to users and the public.

There are certain accounts, records and registers and procedures that also relate to the financial statements through Appendices 1 to 6.

4.2.1 Statement 'A' - Government's Account Balances

This is a statement of cash position for the Provincial or Local-level Government at year-end which should be supported by bank reconciliations. Statement 'A' is intended to show the Public Account comprising the Revenue Fund and the Trust Fund as represented by the year-end cashbook balances and other cash resources available to the Provincial or Local-level Governments.

Common problems associated with the audit of this Statement include the following:

- Bank confirmations for the bank accounts and Interest Bearing Deposit (IBD) Certificates were usually not provided to confirm the closing bank and investment balances;
- Cash books and ledgers were often not updated before preparing the bank reconciliations and therefore the completed bank reconciliations were cumbersome and difficult to audit to ascertain the correct cash balance;
- Opening balances could not be confirmed as correct as these balances did not agree to the corresponding closing balances from the previous year; and
- There were adjustments made to opening or closing balances without any supporting documents provided.

Under these circumstances, I was unable to express an opinion on the accuracy of Statement 'A' and consequently on the financial position of the Governments as at year-end.

4.2.2 Statement 'B'- Summary of Receipts and Payments

This statement is an Operating Account and comparable to a Profit and Loss account in commercial practice. Statement 'B' is intended to show the summary of actual receipts in Statement 'J' and actual expenditure incurred in Statement 'K'.

Tracing figures from Statements 'J' and 'K' to this statement in almost all audits showed material difference relating to either expenses or revenue. Another frequent error was an omission of revenue and expenditure related to Staffing Grant and Teacher Salaries and

Allowances. This occurred as a result of these salaries and allowances being controlled and processed by the Department of Finance. Nevertheless, revenue and expenses arising from Staffing Grant and Teacher Salaries and Allowances should have been accounted for by the Provincial Government's system.

As a result of these omissions, I have qualified this statement due to the net surplus or loss disclosed being materially inaccurate and unreliable.

4.2.3 Statement 'C'- Receipts and Payments of Trust Funds

This statement shows trust funds actual revenues and actual expenditure. The most common error that frequently resulted in material overstatement was the inclusion of the National Government Agencies' trust accounts. These trust accounts are not related to the Provincial Government and should have been excluded from this statement. Consequently, the closing balances shown in the statement could not be relied upon. In addition, breaches of the *Public Finance Management Act (PFMA)* were likely to have occurred due to payments made from the trust accounts or revenue collected not being in accordance with the Trust Instruments.

4.2.4 Statement 'D'- Sources and Application of Funds

This is a summary cash flow statement showing sources of revenue and where these funds were applied. The statement also shows reconciliation of changes in bank balances to the net movement of the cash flow statement. In all instances this Statement could not be confirmed as correct and complete due to audit observations regarding materially incorrect Statements 'B', 'J' and 'K'.

4.2.5 Statement 'E'- Financial Investments

This statement details term deposits, treasury notes, debentures and similar instruments held by the Government. Provincial and Local-level Governments did not maintain investment registers to record details of investments. There were instances where records of revenue arising from either interest or disposal of these investments, were not made available for audit examination. Consequently, I could not verify the accuracy of this statement.

4.2.6 Statement 'F'- Statement of Direct Investments, Capital Contributions, Equity, Options and Rights

The purpose of this statement is to show the Government's investments and ownership in companies and statutory authorities that are long-term investments. All assets including investments acquired are charged to expenditure in the year the payment is made. However, investments are required to be recorded in the accounting system.

Not maintaining investment registers or other records (i.e. share certificates) was a widespread problem. According to previous year's financial statements or other relevant information obtained during the audit, the majority of Provincial Governments held investments in the form of shareholdings and/or made capital contributions in a number of companies. The non-disclosure of the Provincial Governments' investments in this Statement as well as the income derived from such investments is misleading to stakeholders and users of the statements.

This issue is of a particular concern. Firstly, millions of Kina could be lost due to the lack of proper feasibility studies into the financial background and viability of companies in which the Government invests. The Provincial Government should ensure that the viability and the financial and statutory requirements relating to establishment of companies are properly reviewed and analysed prior to investing large sums of public monies in such companies.

In addition, some of these companies are being audited through private arrangements and not by the Government auditors. In my reports, I have advised the Provincial Governments to liaise with my Office on assessing whether an audit of those financial statements should be undertaken by this Office. This assessment would be based on whether the Provincial Government is a major shareholder and has a controlling interest in the company.

My other concern is that due to inadequate maintenance of records, these investments could be lost or misappropriated resulting in significant loss of public funds.

4.2.7 Statement 'G'- Statement of Lending

This is a schedule of all funds lent by the Government, including on-lent loans funds. In absence of proper records or registers maintained by the Provincial Governments in relation to these matters, I was unable to confirm the accuracy of this statement.

4.2.8 Statement 'H'- Statement of Borrowings

This is a schedule of all funds borrowed or loaned. Liabilities or financial obligations to outside organizations outstanding at the end of the financial year are not brought into account; however, they are required to be recorded in this statement. In the absence of proper records or registers maintained by the Provincial Governments in relation to these matters, I was unable to confirm the accuracy of this statement.

4.2.9 Statement 'I'- Statement of Loans Guaranteed by Government

This statement shows the value of commitment of the Government to lenders of monies for loan recovery in the event of re-payment defaulted by borrowers. In the absence of proper records or registers maintained by the Provincial Governments in relation to these matters, I was unable to confirm the accuracy of this statement.

4.2.10 Statement 'J'- Receipts Classified under Heads of Revenue Estimates

In accordance with the budget appropriation classification, this schedule discloses revenue received. The total from this statement has to reconcile with Statement 'B' as revenue and receipts. Revenue consists of all receipts being external (appropriations) or internally generated such as collection of fees and fines. In the majority of audits there were significant and unexplained discrepancies between the total of this statement and Statement 'B'.

The common error was an omission of the actual receipts pertaining to estimated Public Servants and Teaching Services Commission Salaries and Allowances, which are retained

and administered by the Department of Finance on behalf of the Provincial Government, which were (usually) not obtained and posted to the revenue ledgers.

4.2.11 Statement 'K'- Expenditure Classified under Heads of Appropriation

In accordance with the budget appropriation classification, this schedule discloses expenditure actually paid. The total from this statement has to reconcile with Statement 'B'. Expenditure consists of all charges for goods and services received and paid for before the end of the calendar year and refunds of revenue collected in previous years.

A common error was an omission of the actual expenditure relating to the Teaching Services Commission Salaries and Allowances. Furthermore, reconciling items, such as bank charges, fees and other items relating to expenditure which were not adjusted in the cashbook and posted to the respective expenditure ledgers were also not shown in this statement.

4.2.12 Appendix 1

Appendix 1 reports outstanding commitments as at year end. Provincial and Local-level Government's generally failed to report on the amount of committed fund.

4.2.13 Appendix 2

Appendix 2 reports on the outstanding debtors at year end. The majority of Governments did not report any debtors. In addition, there were no proper debtors' ledger or other records such as invoices or debit notes maintained which could provide details of debtors at year end. In cases where the Government reported outstanding debtors, this balance included outstanding debtors from the previous years where no action appeared to have been taken to recover the debts.

4.2.14 Appendix 3

Appendix 3 shows the value of inventories at year end. In absence of various registers and related records, I was unable to verify the accuracy of this appendix.

4.2.15 Appendix 4

Appendix 4 is intended to give details of assets of the Provincial and Local-level Government. The majority of Provincial Governments did not report any assets, despite assets being purchased during the year. Those entities that reported some assets lacked necessary details in order for me to verify the existence, condition, location, custodianship and value of those assets.

4.2.16 Appendix 5

Losses and deficiencies of public monies and property are reported to the Inspection Branch of the Department of Treasury and are listed in this appendix. In absence of losses and deficiencies register and related records, I was unable to verify the accuracy of this appendix.

4.2.17 Appendix 6

Appendix 6 reports on unacquitted advances at year end. The widespread mismanagement and abuse of this entitlement continues to be of concern to me. Provincial and Local-level Government failed to completely and accurately account for these advances. Many were outstanding for several years with no action taken to recover the advances. My Officers observed that in some Provincial Government, revenue collections were illegally loaned to officers. There was also no evidence of management taking action to improve on monitoring the management of advances.

4.2.18 Other Issues

Submission of Financial Statements

It is mandatory for the Provincial Governments and the Local-level Governments to prepare annual financial statements and submit them to the Auditor-General for audit by 30 April in the year following. The Auditor-General then, after the completion of the audit, is required to report to the Minister for Finance, the Minister responsible for Provincial and Local-level Government matters, the National Economic and Fiscal Commission and the Provincial Governor.

At the time of this Report there were 25 financial statements relating to 2014, 2015 and 2016 financial years yet to be submitted by the Provincial Governments for audit as summarized in Table 1 of Section 8.1, Pages 207 – 208.

Presentation of Financial Statements

In addition to the annual financial statements, comprising Statements ‘A’ to ‘K’ and Appendices 1 to 6, the accounts are accompanied by the Chief Accountable Officer’s Statement and the Council Executive Officer’s Statement on the financial operation of the Provincial Government or the Local-level Government for the fiscal year ended.

The financial statements of a number of Provincial Governments did not contain the Provincial Administrator’s Statement for the year ended and consequently were not presented in the format required by the Finance Instructions. This statement is a written representation by the management in which management acknowledges its’ responsibility for the fair presentation of the financial statements, and it also represents a means of approving the financial statements. Since management had not provided the necessary representations, this constituted a scope limitation and affected every statement presented by management.

Another common error was a presentation error that resulted in material misstatement. In a number of financial statements presented by the Provincial Governments, incorrect amounts in Statements from ‘A’ to ‘K’ were presented.

4.3 Financial Statements of Hospital Boards and Provincial Health Authorities

During the last audit cycle I have issued 16 audit reports to Hospital Boards and Health Authorities and 33 financial statements outstanding for submission for audit including ones

the audit reports are under preparations, Table 4 of Section 8.3 details the status of the audit reports as at 30 September, 2017.

Some Hospital Boards although financial statements were not submitted for audit, my Office undertook controls testing. Results of the controls testing are reported under Chapter 6 of this report under the respective Provincial Governments headings.

I am pleased to report that a number of Hospital Boards and Health Authorities received qualified audit opinions compared to past years due to notable improvements in the areas of corporate governance, budgetary controls and payments of wages and salaries. Hospital management is significantly improving each year because of implementation of audit recommendations.

Nevertheless the majority of the audit reports that I have issued in this audit cycle contained Disclaimer Audit Opinions as a result of significant control breakdowns, absence of financial records and financial statements qualifications.

In general, all public hospitals are experiencing problems in preparing and submitting the financial statements for audit within the legislative requirement. Namely, Section 63 of the *PFMA* requires a public body (hospital) to submit and the Auditor-General to finalize the audit of prior year financial statements by 30 June each year. The same Act states that where a public body does not meet this deadline, the Minister may withhold half of the grants appropriated to that body for the following fiscal year. Although the public hospitals continuously fail to meet the requirement for timely reporting, the sanctions of the Act have never been imposed.

Hospitals are required to prepare their financial statements in accordance with the *Finance Instructions 2/2004 – Financial Statement Format for Non-Trading Public Bodies*. The accounts are prepared under the cash basis of accounting with the financial statements consisting of: Statement of Revenue and Expenditure, Statement of Changes in Net Cash Asset, Schedule of Capital Assets and Liabilities and Accounting Policies.

Common problems with the hospitals' financial statements were:

- The records of medical supplies, accounts receivables and payables, capital commitments and contingent liabilities, were either non-existent or inadequate;
- Accounting records or asset registers were not maintained to record the details of the assets. Consequently, I was not able to verify the completeness, existence, accuracy and valuation of the fixed assets at year-end;
- Opening balances of cash at bank could not be confirmed as correct as these balances did not agree to the corresponding closing balances from the previous year;
- No advance registers were maintained. Travel advances and subsistence were frequently not acquitted. Therefore, this constituted a limitation of scope as I could not ascertain the value of the advances and also whether advances were actually utilized for the intended purposes;
- In several cases, there was no appointment of financial delegates to approve expenditure;

- In several Hospitals the Board members were not duly appointed and sworn in, in accordance with Section 6 of the *Public Hospital Act 1994*;
- Payment of gratuities in the absence of employment contracts; and
- Overtime payments to employees without approval from the Chief Executive Officer or appropriate authorities.

4.4 Financial Statements of Business Arms and Subsidiary Corporations

All Provincial Governments had established business arms and have direct or indirect investments in subsidiary corporations and companies. At the time of preparing this Report in September 2017 there were approximately 5 known entities to be audited as detailed in Table 5 of Section 8.4. However, as reported in my previous reports, the full extent of the Provincial Governments' investments therein, or the exact details of these business arms and their subsidiary corporations and companies, could not be fully established due to the lack of adequate information forthcoming from the Provincial Governments or the failure to maintain proper investment records and registers. My Office was unable to determine whether some entities were still in operation, defunct, or liquidated. For many years I have been unsuccessfully pursuing this information with the respective Provincial Governments, their business arms and relevant authorities.

As reported in my previous reports, the entities have failed to submit their financial statements on a timely basis. Financial statements and audit fees have remained outstanding for many years in some cases. Consequently, audit of such financial statements could not be conducted despite my repeated requests.

4.5 Financial Statements of Provincial Authorities

Provincial Authorities are created by an Act of Parliament. The purpose of establishing these authorities is to develop infrastructure and to stimulate business activity in the respective provinces. Some of these authorities are directly involved in commercial activities as well.

The audits of the Provincial Authorities are undertaken when the financial statements are received and when audit fees are remitted to my Office.

As at the time of preparing this Report in September, 2017 the status of audits relating to the Provincial Authorities were as summarized in Section 8.5, Table 7 doable audits.

4.6 Other Audits

Trusts and Funds

My audit responsibilities also include the audits of Special Purpose Funds and Trusts established by Provincial Governments. The audit of these Funds and Trusts is organized in a similar manner as the audit of business arms.

The audits of the Trust Funds (Trustee Limited) are undertaken when the financial statements are received and when audit fees are remitted to my Office.

As at the time of preparing this Report in September, 2017 the status of audits relating to the Provincial Authorities were as summarized in Section 8.6, Table 9 doable audits.

4.7 The Role of the Treasury Offices

Provincial and Local-level Governments are independent legal entities with authority for managing their financial affairs. In recognizing these fiscal responsibilities, Sections 102 and 103 of the *Organic Law* require Provincial and Local-level Governments (P&LLGs) to keep their accounting records proper and have sound internal control systems. The P&LLGs are required to manage their financial affairs in accordance with provisions of the *PFMA*.

The Department responsible for financial management (i.e. the Department of Finance) has been tasked to establish, develop and commission Provincial/District Treasury Offices to provide accounting, financial management and support services to assist P&LLGs in providing community services. The administrative and accounting procedures have been specifically designed through the Finance Management Manual to provide these financial support services.

A Provincial/District Treasury is an accounting organization established under Section 112 of the *Organic Law* located at the province area. The Provincial/District Treasurers' functions are to ensure that all financial transactions undertaken by the P&LLGs out of public moneys are managed properly. These moneys are to be released strictly in accordance with law and contribute to the effective delivery of services to the community. Treasurers from time to time may also oversight functions such as banking, postal, and other services. The Secretary of Finance is tasked to oversee the affairs of these Treasury Offices.

I have the responsibility to examine the financial statements and the accounts and records of the P&LLGs. For the last several years I have reported and concluded that material errors, uncertainties and lack of adequate records existed in Provincial/District Treasuries that resulted in the overall financial position and results of operations that were not reliable. As a result, I continued to report an inability to form an opinion on the P&LLG's financial statements. The situation has not improved much in 2016 as well.

The Provincial/District Treasury Offices did not adequately address their responsibilities through:

- Providing or ensuring experienced and competent Treasury Office personnel are employed;
- Providing adequate risk assessment, planning, manpower or funding to undertake internal audits by the Internal Audit Units within the Provincial Government; and
- A lack of coordination and communication between the Treasury Office personnel and P&LLGs on financial matters.

It is crucial that the Provincial/District Treasury Offices provide necessary support and ensure proper accountability and prudent financial management practices are followed when maintaining the accounts and records of the P&LLGs.

The AGO recommends that the Department of Finance and the Department of Treasury have immediately to commence proper monitoring and support of their Offices so that P&LLG finances and records are properly maintained.

4.8 Audit Fees

The Government of PNG does not provide funding for audits of business arms of Provincial and Local-level Governments, authorities and trusts. In order to undertake audits on these entities I have to recover these costs through raising audit fees. These fees are based on the estimated minimal audit work required to enable me to form an opinion on their financial statements. Consequently, non-payment of audit fees by these entities results in audit work not being undertaken either by my Office or the contractor engaged by me. Based on my experience, a significant number of business entities take advantage of the situation and remain unaudited for considerable lengths of time. During that time, funds invested by the Provincial or Local-level Governments are depleted either due to the inability to effectively manage the business or due to misappropriation. As an end result, there is almost no return on the Government's investments and the misappropriation is never identified and reported to the Parliament and the public.

5. CONTROL ENVIRONMENT

5.1 Introduction

The control environment includes the governance and management functions and sets out the foundation for effective control activities and monitoring. Control activities are policies and procedures that help ensure management directives are carried out and organizational objectives are achieved. Control activities, whether within computerized or manual systems, have various objectives and are applied at various organizational and functional levels.

Monitoring of controls is a process to assess the quality of internal control's performance over time. Monitoring is done to ensure that controls are designed appropriately and continue to operate effectively. Management monitoring of controls includes considering whether they are operating as intended and whether they are modified as appropriate for changes in conditions.

This interim phase of my audit program was designed to assess the reliance that can be placed on control structures to produce complete, accurate and valid information for financial reporting purposes by the Provincial and Local-level Governments, Hospital Boards and other entities that come under my audit mandate.

In performing the statutory audit responsibilities, I focused primarily on evaluation of internal controls, together with such other examinations considered necessary to assess the performance of financial operations of the entities, with a view to assessing the reliability and integrity of financial data and determining the extent of compliance with applicable laws, regulations and directives.

The audits are not required to search specifically for fraud and therefore, cannot be entirely relied upon to disclose all such matters. However, the audits were planned and executed so that I can have a reasonable expectation of detecting material misstatements resulting from irregularities, including fraud.

5.2 Responsibilities of Management

The primary responsibility for the prevention and detection of fraud rests with those charged with governance. For example, the Provincial Administrator is the Chief Executive Officer and the Administrative Head at the Provincial Government level; the District Administrator at the Local-level Government and the Chief Executive Officer at the Hospital or Business Arm of Government. The Administrator/Chief Executive Officer is responsible for the preparation and presentation of the financial statements and the information contained therein in accordance with the Finance Instructions issued under Section 117 of the *PFMA* and the *Organic Law*.

The Administrator/Chief Executive Officer is responsible for the efficient management of administrative services and is also responsible for keeping proper accounting records, for safeguarding the assets of the Provincial Government/Hospital or Business Arms of Government and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

5.3 Responsibility of the Auditor-General

My audits are performed in accordance with the International Standards of Supreme Audit Institutions (ISSAI) as promulgated by the International Organization of Supreme Audit Institutions (INTOSAI) and are designed to provide reasonable assurance that a financial report taken as a whole is free from material misstatement. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial report taken as a whole. Reasonable assurance relates to the whole audit process.

5.4 Details of Control Issues

A broad range of internal control issues were raised as part of the interim audit phase. In general, the results of the testing of controls at different entities indicated that overall, there continue to be significant weaknesses in the control environment. Control activities, such as delegations, authorizations, reconciliations, and data processing were not sufficiently robust to prevent, detect or correct error or fraud.

As part of the interim audits, my reviewed processes and their related control activities in the following areas:

- Corporate governance;
- The work of the internal audit;
- Appropriation and budget management;
- Revenue and receivables;
- Purchases and payments;
- Human resource management processes;
- Cash management;
- Asset management; and
- Trust account management.

5.4.1 Corporate Governance

During the interim audits I assessed whether an agency's control environment included measures that contribute positively to sound corporate governance. These measures should support key elements of a control environment designed to provide a sound basis for effective financial management.

The results of the audits identified:

- Lack of Corporate Plans and operational plans. This was particularly evident in the audit of the Hospital Boards. This could lead to inability to set targets and performance indicators to monitor achievements and to take corrective action. It could also lead to inefficient and ineffective service delivery in that stakeholders and communities needs are not met;
- The requirement for a minimum of four meetings of a Provincial Assembly during the year was not met. In addition, minutes were either not taken or on occasions not certified

by the Chairman. These instances increase the risk that important decisions made may be nullified and may not hold legal basis in the event if challenged in court; and

- Audit Committees were now established in some Provincial Governments. Audit Committees have an important role to play in reviewing and advising on important components of corporate governance.

5.4.2 Internal Audit

Internal audit is a key source of independent and objective assurance advice on an agency's internal control and risk framework. Depending on the role and mandate of an agency's internal audit function, it can play an important role in assessing the adequacy of processes that underpin an agency's financial statements.

From my perspective, internal audit is an important component of the system of internal controls. Because of similarities in the nature and scope of activities performed by internal and external auditors, especially in the public sector, there are significant efficiencies to be achieved if external auditors are able to rely on the work of internal auditors. An effective internal audit program should facilitate external audit to place greater reliance on the work of internal audit, thereby making better use of overall audit resources.

In that respect, it was disappointing to find that the majority of Provincial Government's Internal Audit Units did not have Audit Charter and Audit Plan to set out the mandate and scope of audit coverage. In the majority of cases the Provincial Governments did not provide sufficient funds for Internal Audit Units to perform their duties during the year.

5.4.3 Appropriation and Budget Management

Appropriations represent the primary source of revenue for most Provincial and Local-level Governments and Hospital Boards and Health Authorities. One of the key audit tests was to ensure that the expenditures were within the appropriation limit so that expenditure for each agency accurately reflects anticipated final budget outcomes in the National budget system.

The audit of the agencies revealed that controls relating to the management of appropriations were generally inadequate. Weaknesses noted related to:

- Incorrectly charged expenditures to Vote items for which funds were not appropriated;
- Erroneously increasing the appropriation without revised budget being approved;
- The Appropriation Acts were sometimes not signed and certified. The non-certification of the Appropriation Acts indicates gross negligence of duties by the Chairman and the Clerk of the Provincial Assembly; and
- The Provincial Governments on several occasions did not exercise compliance to financial instructions with regard to management and utilization of unspent funds at year end. Unspent funds were on occasions transferred to Trust Accounts. The unspent funds from the operating account are required to be paid out and receipted into the Government's operating account for budget re-allocation in the following year.

The above mentioned practices expose the Provincial Governments to the risk that the unspent funds may be utilized on expenditure not provided for in the *Appropriation Act*. In

addition, money could be spent in excess of the appropriation limit, which will result in breaches of the *Appropriation Act*, the *PFMA* and the *Constitution*.

5.4.4 Revenue and Receivables

In addition to the appropriation revenue, the Provincial Government collects internal revenue from other sources, i.e. motor vehicle registration and renewal, issue and renewal of driver's licenses, and liquor licensing. Hospitals collect revenue through patient fees. I found that the relevant Registers were either non-existent or were not updated on a regular basis. As a result, total fees collected by either the Provincial Governments or the Hospitals could not be ascertained.

In all Provincial Governments and according to the revenue ledgers, the Government has recorded significant shortfall in revenues in respect of the majority of internal revenue sources. This indicates the inability of the Provincial Governments to carry out sound and prudent revenue forecasting and also the lack of co-ordination and co-operation being exercised by the Revenue Unit and other line economic divisions of the Provincial Government to effectively plan and direct their efforts to ensure that all internal revenues estimated for the year are collected and accounted for.

In a similar manner, General Hospitals collect income from patient fees and gifts and donations. Over the last several years, management of hospitals has not ensured that revenues were collected promptly and that the rates of fees, charges, and imposts were reviewed annually. In addition, there was no compliance to procedures pertaining to compiling of collector statements, thereby undermining the integrity of the revenue collections.

Other common problems across all entities were:

- Daily collections were frequently not banked nor receiver statements raised and posted to the revenue ledger;
- Delays in banking of collections were frequent and on occasions in excess of 30 days;
- There was no segregation of duties maintained between receipting and payment processing; and
- There was no register of debtors maintained.

5.4.5 Purchases and Payments

Strong controls over purchases and payments will help ensure that the quality of goods or services is acceptable and that goods are actually received in good order. Controls including reconciliation processes, segregation of duties, appropriate delegations and access controls provide an effective means of ensuring that payments are valid and accurately recorded, and that funds are not mismanaged or subject to material fraud.

It was noted that in most cases there was an extremely high rate of non-compliance with procurement and payment procedures. The instrument of appointment of Provincial Supply and Tenders Board, minutes of Board's meetings and the Register of Tenders and Quotations were generally not made available for audit review. It was also noted that there was a

significant use of legal firms and consultants that was not supported by proper documentation.

Other significant issues were:

- Payment vouchers were not examined for completeness and accuracy of claims prior to processing the payments;
- Payment vouchers were not certified to confirm the legitimacy of claims prior to processing the payments;
- In some cases delegates had approved expenditures in excess of their delegated financial limits;
- Written quotations were not obtained to ensure value for money; and
- Reimbursements were made to individuals and organizations for payments made on behalf of the Provincial Government using personal money.

The significant lack of controls over procurement and payments expose the State to the risk of:

- Unauthorized purchases;
- Over-commitment of funds without recourse to cash flows;
- Uneconomical purchasing;
- Fraud (kickbacks/secret commissions);
- Staff use purchase orders to purchase personal items;
- Purchasing of inferior or expensive goods and services; and
- Consultancies being engaged at no benefit to the Government.

5.4.6 Human Resource Management

Human resource management processes encompass the day to day management and administration of employee entitlements and payroll functions. The salaries and wages costs within the Provincial and Local-level Governments and Public Hospitals represent one of the single largest items of expenditure in their accounts. This represents a significant area of risk and management should ensure that these costs are carefully controlled and monitored and that those responsible for payroll functions have the necessary skills and knowledge to effectively execute their functions.

Given the significance of employee expenses, and the fact that by their nature some employee entitlement calculations can be inherently prone to human error, entities need to have adequate control mechanisms in place to capture and process employee data and related payments. In addition, key controls should include appropriate approval and review processes.

I observed a number of instances where salaries files of Provincial Government members and staff requested for audit were not made available. Consequently, I was unable to verify any deficiencies in the salaries and allowances paid to Provincial Government members and staff.

Common problem identified with Public Hospitals was that acting appointees on contract positions were incorrectly claiming gratuity payments. Also, recreational leave fare payments to officers and their families had no birth and student concession certificates attached for their

legal dependents for legitimacy and validity. Instances were also noted of leave tickets being refunded through a travel agent after withholding commission plus processing fee.

5.4.7 Cash Management

The cash management process covers the management of bank accounts. Each entity is required to ensure it has the necessary liquidity to meet its commitments as they fall due and to maintain proper controls over its official bank accounts. In this environment, it is essential that adequate management processes are in place to track fund transfers and to safeguard assets.

Bank reconciliation represents an independent verification by management to ensure that cashbook transactions reconcile to the bank statements. Performing bank reconciliations periodically (monthly) ensures that receipts and payments are accurately processed, cashbook or bank errors are identified, and misappropriation or fraud is detected timely. Bank account reconciliations are a key control in assisting management to identify anomalies or errors in the payment and receipting processes and assist the management to discharge its accountability requirements. They need to be prepared within a reasonable period to ensure anomalies or errors have been identified and appropriate action undertaken.

Weaknesses identified related to timely completion of bank reconciliations, including the clearance of reconciling items. In almost all audits of the Provincial Governments, the bank reconciliations were either not done or were not done in a timely manner.

5.4.8 Assets Management

Provincial Governments, Local-level Governments and Hospitals pay significant amounts of money on asset purchases, especially on computers and accessories. It is the responsibility of the Departmental Head to account for and safeguard the State's assets.

The maintenance of a reliable asset register that includes adequate information about assets acquired and disposed of, depreciation and asset reconciliations with periodical stock takes is a prerequisite to effective asset management. Regular reconciliations of the asset register with the entity's financial systems will help ensure the timely and accurate recognition of asset items and facilitate their physical control.

From the audits of the Provincial Government, Local-level Governments and Hospitals it was evident that asset registers were either non-existent or they were not maintained properly. This exposes the entity to the risk that assets may not be utilized effectively, may not be protected from physical deterioration or maintained properly. Further, periodic stock takes were not being conducted to determine the accuracy of assets on hand. This increases the risk of loss, theft or fraud.

5.4.9 Trust Accounts Management

Provincial Governments are responsible for maintenance of a number of trust accounts. To ensure proper accountability of trust money, Part 3 of the *PFMA* requires maintenance of adequate records, that collection of receipts and payments from trust accounts is in accordance with the Trust Instruments and for submission of periodic reports to Department of Finance including a requirement to submit monthly bank reconciliations.

Consistent with the findings from previous years, the Provincial Government could not provide formal Trust Instruments, and I was unable to ensure that the collection of receipts and the payments of trust money were valid. On a number of occasions the cashbook revealed an overdrawn balance.

5.5 Conclusion

Properly functioning internal controls are fundamental for entities in meeting their respective strategic, operational and financial responsibilities. The results of the current testing of controls continue to reveal weaknesses of such magnitude that material error could have been processed or misappropriation and fraud could have occurred.

It is disappointing to report that there has been no change to the situation reported in previous years. Almost all the Provincial Governments, Urban Local-level Governments and Hospitals have been issued with Disclaimer Audit Opinions and some hospitals with qualified opinions signifying that there is still a long way to go in terms of improving their internal control issues and financial management issues. With a lot of Government interventions such as Government Advisors in state agencies and the establishment of Audit Committees, audit issues reported should have been captured and appropriate remedial action taken to address them. In this connection, I urge the Provincial Governments, Urban Local-level Governments and Hospitals to strictly follow my recommendations and implement them in subsequent years.

The Disclaimer Audit Opinion means there is a lack of reliable audit evidence (non-existent or inadequate books and records) and/or reluctance by entity management to provide representation that financial accounts and records have been kept in accordance with acceptable financial management and accounting policies and procedures. A Disclaimer Audit Opinion is the worst audit report that an entity can receive.

A commitment to strong financial management and accountability continues to be particularly challenging but it is also essential to drive improvement in governance within public sector entities and thus help ensure delivery of essential services to the citizens of this country. Having sound financial management and reporting in the public sector is an important contributor in achieving greater transparency, accountability, fiscal responsibility and, hence, improved governance.

However, without robust, transparent, and accountable arrangements for financial reporting and financial management, it is not possible to reliably assess whether decision making by entities has been in the best public interest. Fundamentally, good governance arrangements are essential for an agency to be able to demonstrate to stakeholders that it can be trusted to do what it is established to do. Such arrangements assist stakeholders to have confidence that agencies not only have the competence and expertise required, but that they have also established robust administrative arrangements that enable them to do so efficiently, effectively and ethically. These critically important arrangements currently do not exist.

Weakness in financial management and corrupt practices legitimize bad governance and diverts funding and energy away from development plans and achievement of national goals.

Poor financial management, coupled with misuse of public money, has contributed to decline in service delivery to the public.

6.0 RESULTS OF AUDITS PER PROVINCE

6.1 AUTONOMOUS REGION OF BOUGAINVILLE

6.1.1 Introduction

The Autonomous Bougainville Government, Buka Urban Local-Level Government and Buka General Hospital are audited annually with or without the financial statements. The annual audits of other Local-Level Governments and the Business Arms of the Bougainville Government could not be audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Local-level Governments and Business Arms.

6.1.2 Autonomous Bougainville Government

The Autonomous Bougainville Government had not submitted its financial statements for the financial years ending 31 December, 2014, 2015 and 2016. Fieldwork associated with audit of the internal control environment for 2014 financial year had been completed. The audit working papers together with the draft Management Letter however, could not be located nor the Management Letter reviewed and issued due to the critical health condition of the officer responsible for the audit and consequently, the audit working papers and draft Management Letter were lost or misplaced in the process. I had considered redoing the audit along with the 2015 and 2016 accounts and records to be reported in my 2017 Part 3 Report to the Parliament.

6.1.2.1 Status of Financial Statements

At the time of preparing this Report in September 2017, the Autonomous Bougainville Government had not submitted its financial statements for the years ended 31 December, 2014, 2015 and 2016 for my inspection and audit.

6.1.3 Buka Urban Local-level Government

6.1.3.1 Status of Financial Statements

At the time of preparing this Report in September 2017, the Buka Urban Local-Level Government (BULLG) had not submitted its financial statements for the financial years ending 31 December 2012, 2013, 2014, 2015 and 2016 for my inspection and audit. However, field work associated with audits of the internal control environment for these years could not be conducted due to manpower and financial constraints faced by my Office.

6.1.4. Buka General Hospital Board

The Buka General Hospital Board submitted its financial statements for the years ended 31 December, 2013, 2014 and 2015 in February, 2017 after the completion of the audit of the internal control environment and the issuance of the Management Letters for the two former years in July 2016. Issues identified with the control environment were reported in

my 2015 Part 3 Report to the Parliament. The review of the financial statements for 2013 and 2014 and the audit of the accounts and records for 2015 however, could not be conducted due to financial constraints as well as the uncertainties associated with the 2017 National General Elections.

6.1.4.1 Status of Financial Statements

The Buka General Hospital Board had submitted its financial statements for the years ended 31 December, 2013, 2014 and 2015, though late, in February 2017 for my inspection and audit. At the time of preparing this Report in September 2017, the financial statements for the year ended 31 December, 2016 however, was awaited.

6.1.5 Business Arms

The Autonomous Bougainville Government had a number of business arms as reported in my previous year reports. The status of these business arms however, remained unchanged as at the time of preparation of this Report in September 2017 as re-stated below:

6.1.5.1 South Bougainville Engineering

At the time of preparing this Report in September 2017, the entity had not submitted its annual financial statements for the twelve years ended 31 December, 2016 for my review. Consequently, audit of the financial statements and the accounts and records for these years could not be conducted and therefore, I am unable to report on the affairs, including financial position of the entity.

6.1.5.2 North Solomon Marine Corporation

At the time of preparing this Report in September 2017, the entity had not submitted its annual financial statements for the last twenty four years since 1993 including financial year ended 31 December, 2016 for my review. Consequently, audit of the financial statements and the accounts and records for these years could not be conducted and therefore, I am unable to report on the affairs, including financial position of the entity.

6.1.5.3 Bougainville Restoration and Development Authority

The entity had never submitted any financial statements since its inception. Consequently, audit of the financial statements and the accounts and records could not be conducted and therefore, I am unable to report on the affairs, including financial position of the entity.

6.2 CENTRAL PROVINCE

6.2.1 Introduction

The Central Provincial Government, the Motu Koita Assembly, the Port Moresby General Hospital Board, and Central Province Transport Authority (CPTA) are audited every year, with or without financial statements. Other LLGs and the Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective LLGs and Business Arms.

6.2.2 Central Provincial Government

The Central Provincial Government had submitted its financial statements for the years ended 31 December 2013, 2014 and 2015. Field work associated with audit of the accounts and records and the examination of the financial statements for 2013, 2014 and 2015 financial years were completed and the Management Letters issued were not responded by the Central Provincial Administration. The audit reports of 2013 and 2014 were issued and the 2015 was in progress when this report was prepared in September 2017.

6.2.2.1 Comments on Financial Statements – 2013 and 2014

My reports to the Ministers concerned and other relevant bodies under the *Organic Law and Audit Act* on the Central Provincial Government's financial statements for the years ended 31 December, 2013 and 2014 were issued on the 8 August 2016 and 19 April 2017 respectively. The reports contained similar Disclaimer Audit Opinions hence, only the 2014 report is reproduced as follows:

Basis for Disclaimer Audit Opinion

Financial Statements

Presentation Errors

Finance Instruction 4/2000 issued under *Section 117* of the *Public Finances (Management) Act, 1995* prescribes the format for the preparation and presentation of the financial statements for Provincial Governments. The financial statements of Central Provincial Government for the year ended *31 December, 2014* did not fully comply with the above *Finance Instruction*.

The required disclosures by the Governor and the Administrator on the Provincial Budget Performance and the financial performance were not included in the Financial Statements. Further, the financial statements were not duly signed and certified by the Provincial Administrator and the Provincial Treasurer as required to authenticate its presentation and disclosures. Consequently, I am unable to ascertain the completeness

and the accuracy of the disclosures in the financial statements of Central Provincial Government for the year ended *31 December, 2014*.

Opening Balances

Because of the disclaimer of opinion issued in respect of the year ended *31 December, 2013* and because of other limitations on the scope of my audit as noted below, I was not able to satisfy myself as to the completeness and accuracy of the opening bank balances. Since these opening balances would affect the determination of the financial position and the cash flows of the Central Provincial Government in the current year, I was unable to determine whether adjustments to the respective Cashbooks, financial position and the cash flows, might have been necessary for the year ended *31 December, 2014*.

Statement A - Cash Balances

The Fund balance of was disclosed as negative K714,592 in the financial statements. However, the closing balances of the bank accounts for the Operating and the Grant accounts including other accounts maintained totaling K14,179,386 had a significant discrepancy of K13,464,794. The Bank Reconciliations of the respective Bank accounts were not properly and correctly done during the year as reconciling items carried forward since 2002 in the Operating account were not cleared. Further, *Schedule 6* had significant un-reconciled items of K9,358,373 which were not properly verified, traced and cleared. I was not provided sufficient and appropriate documentation including the required explanations for the discrepancy and the reconciling items. Consequently, I was unable to verify and confirm the validity and the correctness of the Fund balance as at *31 December, 2014*.

Assets

In *Appendix 4* to the financial statements, Assets in the custody of the Central Provincial Government were stated as K5,581,600. However, assets acquired amounting to K2,315,786 were not recorded as additions during the year. The Fixed Assets Register was not properly maintained and kept. As a result, I am unable to verify and confirm the accuracy and validity of the Assets in custody of the Central Provincial Government for the year ended *31 December, 2014*.

Advances

Un-acquitted advances at year end were stated as K3,641,401 in *Appendix 6* to the financial statements. However, Cash advances totaling K346,038 were not recorded during the year. I was unable to confirm and verify the validity and the correctness of the Advances register as it was inaccurate and not properly maintained and kept. Consequently, I am unable to confirm the veracity of *Appendix 6* of the financial statements for the year ended *31 December, 2014*.”

Report On Other Legal and Regulatory Requirements

In addition to the scope limitation and deficiencies in the accounts and records noted above, I also wish to report on the breaches of the *Organic Law on Provincial Governments and Local-level Governments*, the *Appropriation Act, 2013*, the *Public Finances (Management) Act, 1995 (as amended)* and the *Public Service (Management) Act, 1995* and other enabling legislations.

Budgetary Control

The Provincial Government passed an Appropriation Bill of K160,108,870 for the 2014 financial year. However, I was not provided the relevant budget papers, the authorization and the approvals by the Provincial Executive Council (PEC) and the documentation for the respective budget reviews held during the year. Further, I was not provided an explanation or the necessary documentation for the significant variances culminating to noncompliance with Budgetary Protocols and legislations.

Corporate Governance

I was not provided the Corporate Plan (2011 – 2015) and the Meeting minutes of the PEC Meetings for the year ended. Consequently, I was unable to ascertain the governance culture and the veracity of the implementation of those resolutions if there were any during the year ended *31 December, 2014*. Further, I observed that the Internal Audit Unit was under staffed, underfunded and inadequately supported with logistics to effectively carry out its responsibilities.

Procurement and Payments

There were significant control weaknesses in the Central Provincial Government's maintenance of the accounting records and processes resulting among others these anomalies:

- 39 payments totaling K6,654,253 were not verified for their validity and correctness as supporting documents were not made available for my examination;
- Three (3) payments totaling K397,806 were made without the required three (3) written quotations;
- Five (5) payments made to various suppliers for procurement of various goods and services and Law firms totaling K401,300 and K174,594 respectively did not have proper and adequate supporting documentation;
- A total of K11, 699, 644 was incurred for Major and Minor Capital works and maintenance programs during the year. However, relevant documentation and records including Contract, Completion reports, Certification reports, Tender documents and Status reports for the respective projects were not made available for audit examination; and

- In Vote 143, expenditures totaling K2.5 million were incurred for a 2013 roll over. However, I was not provided the necessary explanations or the required supporting documentation for these expenditures.

Disclaimer Opinion

Because of the significance of the matters described above, I am not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of Central Provincial Government for the year ended 31 December, 2014.”

Other Matters

In accordance with the *Audit Act, 1989 (as amended)*, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- Central Provincial Government did not maintain proper accounts and records and had consequently breached *Section 68(1) of the Public Finances (Management) Act, 1995*; and
- The receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments.*”

6.2.2.2 Management Response

The management had been given an extended time to respond to my management letters queries, however, had not done so at the time of preparation of this Report in September 2017.

6.2.2.3 Status of Financial Statements

The Central Provincial Government had not submitted its financial statements for the year ended 31 December, 2016. However, the audit of the internal control environment was in progress at the time of preparation of this Report in September 2017.

6.2.3 Motu Koita Assembly

The *Motu Koita Assembly Act 2007* provided for the establishment of a Local-level Government for the Motu Koita people. The purpose of the Act was to enable the Motu Koita people to participate actively and meaningfully in the development of the National Capital District. Section 113 subsection 4 (c) of the *Organic Law* require the Assembly to submit its financial statements and its accounts and records to be audited by the Auditor-General of Papua New Guinea.

6.2.3.1 Status of Financial Statements

The Motu Koita Assembly (MKA) had not prepared its financial statements for the years 2007 to 2017. I reported in my 2014 Report that audit of the accounts and records and the related control environment could not be conducted due to lack of cooperation from the officers and non-availability of the necessary records. I had dispensed 2007 to 2012 financial statements audits under *Part V Section 16 (6) of the Audit Act, 1989*.

6.2.4 Port Moresby General Hospital Board

The Port Moresby General Hospital had submitted its financial statements for the financial years ended 31 December 2014, 2015 and 2016. Field work associated with the audit of the accounts and records and review of the financial statements for 2014, 2015 and 2016 had been completed with the Management Letters issued.

6.2.4.1 Comments on Financial Statements – 2014 to 2016

My reports for the years ended 31 December, 2014, 2015 and 2016 to the Ministers concerned and other relevant bodies under the *Public Hospital Act, 1994*, *Public Finance (Management) Act, 1995* and *Audit Act, 1989* were all issued in 2017. The reports for the three years contained Disclaimer Audit Opinions with similar issues hence; only 2016 report is reproduced below:

Basis for Disclaimer Audit Opinion

Financial Statements

Presentation Errors

The financial statements of Port Moresby General Hospital for the year ended *31 December, 2016* did not comply with the format as prescribed by *Finance Instruction 2/2004 issued under Section 117 of the Public Finances (Management) Act, 1995 (as amended)*. The Hospital did not disclose sufficient explanatory notes to the respective items and the non-disclosure of the Schedules for Capital Assets and Outstanding Liabilities. As a result, I was unable to express an opinion on the accuracy and completeness of the financial statements as the financial statements were not submitted as prescribed for its authentication.

Limitations of Scope of Audit and Disclosure Errors

I noted the following limitations of scope of audit and disclosure errors which have material effect on the accuracy and completeness of the account balances, the financial position of Port Moresby General Hospital as at 31 December, 2016 and consequently, the reliability of the financial statements.

Opening Balances

Because of the Disclaimer of Audit Opinion issued in respect of the year ended *31 December, 2015* and because of other limitations on the scope of my audit as noted below, I was not able to satisfy myself as to the completeness and accuracy of the opening bank balances. Since these opening balances would affect the determination of the financial position and the cash flows of the *Port Moresby General Hospital* in the current year. I was unable to determine whether adjustments to the respective Cashbooks, financial position and the cash flows, might have been necessary for the year ended *31 December, 2016*.

Accumulated Fund Balances

The Accumulated Fund Balance was stated as K11,416,549 in the financial statements. Included in the account balances was the Special Projects Account and Operations Account balance of K76, 884 and K11,024,370 respectively. The Trust and Special Projects Accounts balances of K261,542 and K53 643 respectively included in the fund balance did not agree to the respective account summary attached. The MYOB Accounting System used was not reconciled to the Excel Spread Sheets records used for the population of the financial statements disclosures. As such, I am unable to verify and confirm the correctness of the Accumulate Fund Balance for the year ended *31 December, 2016*.

Receipts and Payments

The Consolidated Receipts and payments of the *Port Moresby General Hospital* were stated as K54, 283,134 and K46,367,573 respectively in the financial statements. The appropriation for personal emoluments from the National Government was stated as K31, 621,800. The personal emolument balances per the operating account statement stated as K12, 638, 868 did not agree to consolidated account summary of K12, 671, 023. With the lack of underlying records, periodic salary reconciliations and audit trail, I was unable to verify and confirm the account balance as correct for the year ended *31 December, 2016*.

Capital Assets

Capital assets purchased during the year and the prior year was stated as K1, 786,735 and K8, 138,669 respectively in the Consolidated Summary of Receipts and Payments for the year ended *31 December, 2016*. However, contrary to *Note 10* to the financial statements, a list of assets and its values were not disclosed in the financial statements. An asset register maintained did not include details like date of purchase, purchase price, serial numbers and location for ease of reference. As a result, I was unable to confirm and verify the total assets valuing more than K9, 925,404 for the year ended.

Lack of supporting documents in Payments

Total payments were stated as K46, 367,573 in the consolidated summary of the financial statements for the year. However, during my review the supporting documents that could not be provided for audit examination was nearly 26% of the total expenditure for the

year. Consequently, I am unable to confirm and verify the validity and the correctness of the expenditures for the year ended *31 December, 2016*.

Significant Control Weaknesses

Budgetary Control

The total expenditure for salaries and wages was K43,373,582 which exceeded the appropriated amount of K31,621 800 resulted in an unauthorized over expenditure of K11,751,782. Further, the Administrative Consultancy Fees of K2,189,418, Golf day Expenses of K89,873, Constructions, Renovation and Improvement expenditure of K4, 549,430 were not budgeted for and the authority for such expenditures could not be sighted. Consequently, I am unable to verify and confirm the validity of these additional appropriations as no explanation and documentation were provided for my oversight.

Payroll/Rental Reimbursements

The financial statement disclosed K1, 458,814 as monies received from a revenue head described as "Payroll/Rental Reimbursements" No underlying records such as sundry debtors listing and the related books of accounts were maintained to record the monies owed to the Hospital, I was unable to verify and confirm the validity and the correctness of the disclosure for the year ended *31 December, 2016*.

A total of K4, 086,895 paid for Short term Contract Officers was not reimbursed and remained outstanding as Finance Department had not reimbursed the Hospital.

Internal Revenue

Collection and accounting of internal revenues were inadequate as there were no collector's statements, receipts books and deposit books for the internal receipts reported in the financial statements. The recording and banking of receipts were not prudent during the year.

Sir Theo's Foundation had donated K1, 195,276 to the Port Moresby General Hospital during the year ended *31 December, 2016*. However, this donation was not taken into account and reported as such. Consequently, I was unable to confirm the disclosure in Receipts as complete and fair.

Advances

Advances were made to staff of the Hospital for travel and subsistence and as Salary Advances during the year. However, as there were no Advances Register and supporting documentation maintained and provided for my review, I was unable to verify and confirm the completeness and the validity of the total advances paid and recovered during the year.

No Service Agreements

Major Service providers were paid a total of K11, 966,119 during the year. However, there was no service Agreements or Contracts entered into by the Hospital for the procurement of these services.

Consultancy Services

Consultancy and payments to law firms totaling K424, 911 and K746, 847 respectively were not proper and lacked disciplined compliant procurement practices.

Human Resource Records

Personal files, Employment records and the Staff Establishment Register for employees were not properly kept and maintained by the *Port Moresby General Hospital* during the year. Further, there were no salary reconciliations for the salaries paid during the year.

Inappropriate Employment Contract Allowances

Contractual allowances paid totaling K164, 500 for nine (9) contract Officers were not appropriately approved under the National Doctors Awards 2014 – 2016.

Corporate Governance

The governance culture at the Hospital was weak and lacked cohesive direction to achieve its corporate goals and mission. Further, the 2011 – 2020 Clinical Services Development Plan's monitoring and evaluation was not conclusively feasible at the board level during the year ended *31 December, 2016*.

Internal Audit

Internal Audits were not conducted by the Hospital or the National Department of Health (NDoH) to ensure probity and integrity of the Hospitals systems and processes to safe guard against loss, misuse and abuse.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of the *Port Moresby General Hospital* for the year ended *31 December, 2016*.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- *Section 19(6) of the Public Hospital Act, 1994* requires minutes of the Board's meetings to be recorded and kept. The *Port Moresby General Hospital* did not adequately and fully maintain minutes of Board meetings during the year ended 31 December, 2016.
- *Section 62(1) of the Public Finances (Management) Act, 1995* requires all public bodies to keep proper accounts and records of its transactions and affairs, and to develop adequate controls over their assets and liabilities. As discussed in the Basis for Disclaimer Audit Opinion paragraphs above, the *Port Moresby General Hospital* had not complied with this requirement.
- Port Moresby General Hospital did not maintain proper books of accounts and records and consequently breached *Section 68(1) of the Public Finances (Management) Act, 1995.*"

6.2.5 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local Level Governments Business Arms and other establishments.

I am aware of eight business arms of the Central Provincial Government namely, Central Province Transport Authority (CPTA); Central Provincial Investments (formerly Central Provincial Development Corporation); Central Provincial Travel Agent; Vitis Spices; Gokas Construction; Central Air Transport; Baina Agro-Forestry; and Ilimo Farm. CPTA had been the only one which had been consistently audited for the years up 2010. None of the other entities had submitted their recent financial statements for audit at the time preparation of this Report in September 2017.

6.2.5A Central Province Transport Authority (CPTA)

The Authority had submitted its financial statements for the year ended 31 December 2011. The fieldwork associated with audit of the accounts and records and the examination of the financial statements had been completed and the Management Letter issued to the Managing Director in 2017. The audit report to the Minister and other authorities concerned was in progress at the time of the preparation of this Report in September 2017.

6.2.5A.1 Management Response

The Management had been given an extended time to respond to my Management Letter queries however, had not done so at the time of preparation of this Report in September 2017.

6.2.5A.2 Status of Financial Statements

The Authority had not submitted its financial statements for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 for my inspection and audit.

6.3 EAST NEW BRITAIN PROVINCE

6.3.1 Introduction

The East New Britain Provincial Government, Rabaul Urban Local-Level Government, Kokopo/Vunamami Urban Local-Level Government, Nonga General Hospital and Gazelle Restoration Authority are audited every year, with or without the financial statements. Other Rural Local-Level Governments and the Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office.

6.3.2 East New Britain Provincial Government

The East New Britain Provincial Government had submitted its financial statements for the financial year ending 31 December, 2015. Field work associated with examination of the financial statements and the audit of the accounts and records were completed with the Management Letter issued. Issues highlighted in the Management Letter were reported in my 2015 Part 3 Report to the Parliament in July, 2016. The audit opinion report was subsequently issued in November, 2016. Issues highlighted in the opinion report are as stated below.

6.3.2.1 Comments on Financial Statements – 2015

My Report for the year ended 31 December, 2015 to the Ministers concerned and other relevant bodies under the *Organic Law* on Provincial Governments and Local-Level Governments and the *Audit Act* was issued on 30th November, 2016. The report contained a Qualified Audit Opinion as reproduced below:

“Basis for Qualified Audit Opinion

Presentation

Finance Instructions 4/2000 issued under *Section 117* of the *Public Finances (Management) Act, 1995* prescribes the format for the preparation and presentation of the financial statements for Provincial Governments. The financial statements of East New Britain Provincial Government for the year ended 31 December, 2015 fully complied with the formats prescribed by Finance Instructions.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the East New Britain Provincial Government Account balances and consequently, the financial position of the Provincial Government as at 31 December, 2015:

Cash Balances

- The East New Britain Provincial Government cash and bank balance of K14, 548,981 included an old operating account balance of K4, 422,292. The old

operating account balance merely represented an un-reconciled cashbook balance at the time when the account was closed and was not supported by actual cash balance held in bank account as this account was dormant since 2009. I have reported the same in the previous reports to which the Provincial Government had commented in response to my Management Letter queries for financial year ended 31 December, 2014 stating that the *old Cash Book amount of K4,422,292 was rendered on write off on and was approved by the Finance Secretary on the 3rd of December 2014 however, The First Assistant Secretary Finance Reporting and Compliance Division was yet to make a decision on correct accounting treatment to confirm the removal of the old cash Book; and*

- The balance of the Provincial Revenue Fund of K15,820,940 could not be confirmed as correct due to errors and material misstatements of operating deficit as discussed under the paragraphs on Receipts and Payments for the year ended 31 December, 2015;

Receipts and Payments

The East New Britain Provincial Government reported its total revenue and expenditure as K39,935,063 and K47,405,168 respectively with an operating deficit of K7,470,105 (Statement 'B'). The accuracy of the revenue and expenditure and therefore, the correctness of the operating deficit as at 31 December, 2015 could not be confirmed due to the following issues:

- The total actual revenue of K39,935,063 included Staffing Grant totaling K272,300 only while the IFMS 2233 report (from Department of Finance) disclosed total warrant authority amounts as K16,967,000 for public servants salaries and K42,861,000 for Teachers' Salaries. These amounts were also not taken up in the respective revenue ledgers although provided for in the Annual Appropriation Act; and
- The receipts and expenditure relating to Provincial Special Intervention Program (PSIP) funds totaling K9,450,000 and K19,430,893 respectively had not been disclosed in this Statement as PSIP funds were budgeted for and taken up in the National Government Agencies Database and administered through the Provincial Treasury Operating Account.

Investments

I noted the following observations in relation to the investments held as well as the investment transactions of the Provincial Government during the year:

- Statement 'E' showed the Provincial Government held short term financial investments in Interest Bearing Deposit (IBD) account as K62,531 with interest at year end. The balance of the financial investment however, had not been disclosed in Statement 'A'. Further, the Provincial Government had received and accounted for dividends totaling K182, 081 from its short term investments in Gazelle International Hotel. Though the proceeds were adequately reported in Statement 'J'

the details including principle investment were not disclosed in Statements 'E' and 'A';

- As reported in my previous reports, the East New Britain Provincial Government held investments totaling K2, 689,252 represented by 100% shares in East New Britain Development Corporation Ltd valued at K2, 159,139 and K530, 113 in Barakopo Plantation Development Corporation Ltd. In the absence of audited financial statements of the investment companies as well the investment register and other related records required to be held by the Provincial Government, I was unable to verify the accuracy, completeness, existence and ownership of the above reported investments balance at year end; *and*
- As stated in my previous years audit reports, the Provincial Government paid K5.5 Million to a Fishery Project Developer, New Britain Resources Development Company as initial part payment to acquire its fifty-one percent (51%) shareholding with the Company. The National Fisheries Authority was to have issued twenty (20) fishing licenses under the project agreement. I observed however, the fishing licenses and share certificates have not been obtained due to legal proceedings by the National Fisheries Authority against the project developer, the Provincial Government and the State. Further, I was not able to ascertain whether the Provincial Government's investment was still viable in view of the legal issues surrounding the fishery project.

Fixed Assets

The East New Britain Provincial Government had reported its fixed assets as K69, 564, 553 as at 31 December, 2015 with an opening balance of K46, 579,775, additions of K23, 680,784 and disposals of K696, 006. Purchases during year under review totaling K451, 191 however, had not been recorded in the updated fixed asset register. Consequently, I am unable to verify the completeness and accuracy of the value of assets owned and under the custody of the East New Britain Provincial Government for the year ended 31 December 2015.

Un-acquitted Advances

Appendix 6 to the financial statements disclosed un-acquitted advances relating to the payments of travelling allowances and cash advances totaling K413, 605. The reported un-acquitted advances did not include the carried forward balance of K393, 571 thereby understating the un-acquitted balance at year end to that extent. Further, errors and omissions reported in our 2014 report were not taken into account and amended accordingly. Consequently, I am unable to rely on the completeness and accuracy of total un-acquitted advances disclosed in the Appendix to the financial statements;

Trust Accounts

The East New Britain Provincial Government had operated twelve (12) non-bank trust accounts with a total overdrawn closing balance of K1, 271,960 as at 31 December 2015. I was not provided evidence of Trust Instruments and other related documents to ascertain legality, validity and the appropriateness of the transactions effected through trust accounts during the year.

Significant Control Weaknesses

The paragraphs below give a summary of significant control weaknesses identified in the East New Britain Provincial Government's records and processes:

- I was unable to ascertain whether the approval for expenditure totaling K99, 500 was within the designated financial limit of the respective financial delegate. In this connection, several Section 32 Officers who approved Requisitions for Expenditure (FF3) continued failing to disclose their designations and financial approval limits;
- In thirty-one (31) instances, payment vouchers with relevant supporting documents relating to expenditures incurred totaling K3,386,065 could not be easily located due to poor maintenance of payment vouchers. Consequently, the validity as well as proper authorization of the claims presented for payment could not be ascertained;
- Payments of grants/subsidies and financial assistances in lump sum from various expenditure votes/divisions totaling K14,779,163 to non-profit organizations, public authorities, churches, health centers/aid posts, schools, business arms, small/medium enterprises and individuals seriously lacked evidences of accountability reports by the recipients nor were there records to indicate that the Provincial Government had sought such reports;
- The Provincial Government had expended over K7.8m on tenderable capital works & maintenance contracts during the year. Meeting Minutes of Provincial Supply & Tenders Board (PSTB) convened during the year however, were not properly maintained hence, couple of Meeting Minutes could not be provided for my review. Consequently, I was unable to verify the validity and genuineness as well as proper approval of all other minor capital works and maintenances expenditures incurred during the year;
- My review of the Provincial Assembly Members Payrolls revealed the Provincial Assembly members were taxed on their normal salary only while all their allowances were paid on a fortnightly basis - tax free. The Senior Officers of the Provincial Administration were also paid monthly vehicle allowances of K4, 000 - tax free. Total payments on vehicle and mileage allowances for the year amounted to K1, 178,800.

Similar issues were raised in the 2014 audit Management Letter which the Provincial Administration did acknowledge the fact that all allowances are taxable under the Income tax Act. Consequently, the ENB Provincial Administration may be liable for non-payment of taxes on the salaries & allowances of the Assembly Members and vehicle allowances for its Senior Officers; and

- I sighted no evidence to indicate that fortnightly payroll reconciliations were done to verify the correctness of the payroll which have resulted in unbudgeted direct payments in overtime allowances totaling K57,000, Retrenchment Benefits, Pensions and Gratuities totaling K223,000 and unidentified Alesco Payroll expenditure of K41,000

Qualified Audit Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Audit Opinion paragraphs, the financial statements of East New Britain Provincial Government for the year ended 31 December, 2015:

- i. Give a true fair view of the financial position and the results of its operations for the year then ended;
- ii. The financial statements have been presented in accordance with the *Public Finances (Management) Act, 1995*, International Public Sector Accounting Standards (IPSAS) and other legislations; and
- iii. The controls exercised by the Provincial Government are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of moneys and acquisition and disposal of public property and incurring of liabilities have been in accordance with the Public Finances (Management) Act and other legislations.”

6.3.2.2 Status of Financial Statements

At the time of preparation of this Report in September, 2017, the East New Britain Provincial Government had submitted its financial statements for the year ended 31 December, 2016. Field work associated with the review of the financial statements and the audit of the accounts and records had been completed and the results were being evaluated.

6.3.3 Kokopo/Vunamami Urban Local Level Government

The Kokopo/Vunamami Urban Local Level Government submitted its financial statements for the year ending 31 December, 2015. Field work associated with examination of the financial statements and audit of the accounts and records was completed with the Management Letter issued and the audit opinion report also issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.3.3.1 Comments on Financial Statements – 2015

My report to the Ministers concerned and other relevant bodies under the *Organic Law and the Audit Act* was issued on 3rd of July, 2017. The report contained a Disclaimer Audit Opinion as reproduced below.

Basis for Disclaimer Audit Opinion

Presentation

Finance Instructions 5/2000 issued under *Section 117 of the Public Finances (Management) Act, 1995* prescribes the format for the preparation and fair presentation of the financial statements for Local level Governments. The financial statements of

Kokopo/Vunamami Local level Government for the year ended 31 December, 2015 fully complied with the formats prescribed by Finance Instructions.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy, completeness and reliability of the Kokopo/Vunamami Urban Local Level Government Account balances and consequently, the financial position of the Local Level Government as at 31 December, 2015:

Cash Balances

The Kokopo/Vunamami Urban Local Level Government Account balance of K322, 190 is inaccurate in view of the reconciling items identified in the bank reconciliation statement for December, 2015 relating to receipts and expenditure that had not been adjusted in the cashbook and respective revenue and expenditure ledgers and disclosed in Statements 'J' and 'K' which also affected the accuracy of the bank and cashbook balances at year end. Further, the reported account balance as per *Note 3* to the accounts is incorrect in view of the comments made in relation to the unreliability of the operating deficit of K270,430 used to calculate the account balance at year end.

Receipts and Payments

Total revenue and expenditure of K3, 368,967 and K3, 639,397 per Statement "B" with an operating deficit of K270, 430 are not in agreement with the Trial Balance total receipts and expenditure of K3, 371,042 and K3, 658,725 respectively.

Debtors and receivables

The 'Nil' balance of debtors and receivables reported in *Appendix 2* to the financial statements is not in agreement with the Aged Receivables Summaries balance of K4,374,785 hence, is inaccurate and misleading.

Fixed Assets

The fixed assets at historical cost of K701, 312 disclosed in *Appendix 4* to the financial statements is acutely inaccurate and misleading in view of the following discrepancies:

- The costs of assets disclosed are basically the brought forward balances from 2011 and as such, did not reflect complete and accurate information on additions and/or disposals during the year and those of the prior years;
- The Urban Local level Government did not maintain a proper Assets Register with updated details of additions and/or disposals during the year. Consequently, additions during the year totaling K322,921 had not been recorded and properly accounted for;
- *Appendix 3* to the financial statements did not disclose any information or values in relation to stocks of inventories held by the Urban Local Level Government as at 31 December, 2015. Further, I sighted no evidence to indicate that stock takes were

done to confirm the completeness and existence all assets and inventories owned and under the custody of the Urban Local Level Government at year end.

Advances

Appendix 6 to the financial statements showed un-acquitted cash and travel advances as K109,134. The accumulative balance of K109,134 contains inherited errors from prior years which have not been adjusted. As such, the reported balance of un-acquitted advances is inaccurate and misleading.

Other Records and Registers

Several other documentations corroborating the financial statements, such as the registers of investment, inventory, debtor and borrowings, commitments & arrears, and losses & deficiencies were not available for my review. Consequently, I could not ascertain the existence, completeness and accuracy of these items in the financial statements.

Significant Control Weaknesses

The Management Letter relating to the audit of the accounts and records for the year ended 31 December 2015 was issued in June, 2017. The paragraphs below give a summary of significant control weaknesses identified in the Kokopo/Vunamami Urban Local Level Government's internal control environment:

- The Urban Local Level Government reported its annual budget estimates for revenue and expenditure as K7,024,000. I was not provided evidence including the Appropriation Act of 2015 or a certified revised budget and other relevant quarterly budget review documents to suggest that the original as well as the revised budgets were duly sanctioned and certified prior to implementation;
- The Section 32 Officers failed to disclose their designations, financial limits and date of approval on the Requisitions for Expenditure (FF3) when approving requisitions to incur expenditure. Consequently, I was unable to verify whether the approval for expenditure are within their delegated financial limits;
- Payments totaling K562,091 were not signed by the Certifying Officer to confirm the validity, accuracy and genuineness of the claims submitted for payment;
- I observed several instances of 'splitting of orders' whereby payments to one supplier and/or payee are processed and paid by way of raising several Requisitions for Expenditure (FF3) and Finance Form (FF4) in order to circumvent proper expenditure authorization procedures such as the Section 32 Officers approving expenditures in excess of their designated financial limits;
- The required three (3) verbal and/ or written quotations were not obtained from Suppliers in most instances to determine the most economical prices for the required goods and services. Further, I observed the payment vouchers for purchase of office stationaries and other operational materials and supplies were not supported with goods delivery dockets to confirm the accuracy of the items ordered

and also to ensure that the correct quantity were delivered and actually received in good order by the Urban LLG;

- Advance payments for supply of fuel for the year amounted to K96,497. I sighted no evidence to suggest proper controls including proper vehicle log sheets were maintained on the usage of the Urban LLG vehicles particularly after business hours and on the weekends;
- The Urban Local Level Government had paid a total of K309,496 in 2015 for rubbish removal services which included outstanding payments dating back to 2010. I could not confirm if the payments were legal and genuine in the absence of any proper ledgers and/or registers to record details of outstanding invoices;
- Grants and financial assistances to various recipients including the fifteen (15) Local Level Government Wards and various individuals and groups totaling K127,966 had not been acquitted by way of furnishing accountability reports to the Urban Local Level Government. Further, I sighted no evidence to indicate that the Urban Local Level Government had sought these reports from the recipients;
- A total of K119,333 was paid out in vehicle allowances to three Senior Officers of the Urban Local-level Government using internal revenue funds on vote items 125 and 135 which are intended for transport and fuel and other operational expenses respectively. I noted these payments as improper and an indication of non-adherence to proper budgetary control practices;
- The Kokopo/Vunamami Urban LLG had inappropriately charged expenditures totaling K18,072 to expenditure vote items 221 and 126 where funds were not allocated for the purposes intended;
- Payments of reimbursement claims by the Town Manager totalling K9,024 not supported with any valid supporting documents and legitimate evidence of prior approval by the District Administrator;
- Two (2) payment vouchers in respect of payments of K15,000 and K9,100 paid to a Joe Paraide and Alanda Trading Limited for truck and vehicle hires were missing from files and as such, I could not ascertain the validity as well as proper authorization of the claims presented for payment; and
- I observed serious lack of proper monitoring and recovery exercises on travel and cash advances resulting in substantial amounts dating several years back, remained un-acquitted as at 31 December, 2015.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I am not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the financial statements of Kokopo/Vunamami Urban Local-level Government for the year ended 31 December, 2015.

Other Matters

In accordance with the Audit Act, I have duty to report on significant matters arising out of the financial statements to which the report relates. The following are matters of significance:

- The Kokopo/Vunamami Urban Local Level Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act 1995*; and
- The receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*”.

6.3.3.2 Management Response

Management had not responded to matters raised in my Management Letter queries. Consequently, I was not advised of any improvement at the time of preparation of this Report in September, 2017.

6.3.3.3 Status of Financial Statements

At the time of preparation of this Report in September, 2017, the Kokopo/Vunamami Urban Local-Level Government had not submitted its financial statements for the year ended 31 December, 2016 for my inspection and audit.

6.3.4 Rabaul Urban Local Level Government

The Rabaul Urban Local-Level Government submitted its financial statements for the year ended 31 December, 2015. Field work associated with examination of the financial statements and audit of the accounts and records was completed with the Management Letter issued and the audit opinion report also issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and internal control environment.

6.3.4.1 Comments on Financial Statement – 2015

My report to the Ministers concerned and other relevant bodies under the *Organic Law and Audit Act* on the Rabaul Urban Local-Level Government’s financial statements for the year ended 31 December, 2015 was issued on 20th April 2017. The report contained a Qualified Audit Opinion as reproduced below.

Basis for Qualified Audit Opinion

Presentation Errors

Finance Instructions 5/2000 issued under *Section 117* of the *Public Finances (Management) Act, 1995* prescribes the format for the preparation and presentation of the

financial statements for Local level Governments. The financial statements of Rabaul Urban Local-level Government for the year ended 31 December, 2015 had the following non-compliance and presentation issues:

- Except for the Mayor's, the District Administrator's statements on the Urban Local Level Government's budget and financial performance were not included;
- The Mayor's statement on the Urban Local-level Government's budget performance incorrectly stated the 2015 approved budget appropriation as K1,849,400 when he had certified the approved budget ceiling of K2,280,000 for the fiscal year ending 31 December, 2015;
- The set of financial statements provided to audit were noted as draft hence, were not signed and certified by both the District Administrator and District Treasurer to authenticate the financial statement as legal documents presenting true and fair view of financial activities of the Rabaul Urban Local-level Government during the fiscal year ended 31 December, 2015;
- Statement 'C' had misleading column headings with the both opening and closing balance dates shown as 31 December, 2014 instead of 01 January 2015 and 31 December, 2015; and
- The Rabaul District Treasurer did not exercise due care in the preparation and presentation of the financial statements. Consequently, the set of financial statements contained inconsistencies and errors in respect of the financial year of reporting. The errors were noted throughout Notes 3 & 4, 7 to 17, Statements 'C', 'E' to 'I' and Appendices 2 to 6.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy, completeness and reliability of the financial statements of the Rabaul Urban Local-level Government Account balances and consequently, the financial position as at 31 December, 2015:

Cash Balances

The Rabaul Urban Local Level Government cash and bank balance of K541,927 could not be confirmed as correct due to errors and material misstatement of operating deficit as disclosed under the paragraph on Receipts and Payments for the year ended 31 December, 2015.

Receipts and Payments

Statement 'B' presented total revenue and expenditure as K1,205,551 and K1,350,041 respectively with an operating deficit of K144,490. I observed there were reconcilable items relating to receipts and expenditure that were not adjusted in the cashbook and relevant revenue and expenditure ledgers and disclosed in Statements 'J' and 'K' which also affected the bank and cashbook balances at year end.

Fixed Assets

The total cost of fixed assets of K1,899,556 disclosed in *Appendix 4* to the financial statements is inaccurate and misleading in view of the following discrepancies:

- The Appendix showed opening balance totaling K2,362,914 however, did not reflect complete and accurate information on additions and/or disposals during the year to arrive at the reported closing value;
- Fixed Asset Register maintained as supporting schedule to *Appendix 4* recorded fixed assets at a total cost of K2,677,914 at 31 December, 2015 hence, not in agreement with *Appendix 4*;
- Appendix 3 to the financial statements did not disclose any information or values in relation to stocks of inventories held by the Urban Local Level Government as at 31 December, 2015; and
- The Fixed Asset Register maintained by the Urban Local-level Government was not updated on a current basis with complete and accurate information on all assets purchased and/or disposed of during the year.

Advances

The summary schedule of *Appendix 6* to the financial statements stated un-acquitted travel and cash advances as K22,523 while the detailed scheduled reported a balance of K28,312 respectively resulting in a variance of K5,789 as at 31 December, 2015. Further, *Note 17* to the financial statements disclosed a balance of K15,769 as at 31st December, 2015 which were all not agreeing to the PGAS Advances Register outstanding total of K24,132 at year end. As such, the reported balances of un-acquitted advances are inaccurate, misleading and unreliable.

Other Records and Registers

Several other documentations corroborating the financial statements, such as the registers of investment, inventory, debtor and borrowings, commitments & arrears, and losses & deficiencies were not maintained hence, not available for my review. Consequently, I could not ascertain the existence, completeness and accuracy of these items in the financial statements.

Significant Control Weaknesses

The paragraphs below give a summary of significant control weaknesses identified in the Rabaul Urban Local Level Government's internal control environment:

- The annual budget appropriation of K2,280,000 was approved by the Urban LLG Finance Administration/Planning/LLG and Lands Committee on 13 November, 2014. My review of the expenditure ledgers however, revealed funds totaling K1,733,653 were released to the Urban Local-level Government. I was not provided evidence including the Appropriation Act of 2015 or a certified revised budget and other relevant quarterly budget review documents to suggest that the

original as well as the revised budgets were duly sanctioned and certified prior to implementation;

- The Rabaul Urban LLG did not adhere to financial procedures in relation to maintenance of quotation registers and obtaining the required three (3) verbal and/or written quotations from suppliers; and
- There was a lack of proper monitoring and recovery exercises relating to travel and cash advances resulting in substantial amounts remaining un-acquitted, from 31 December, 2015.

Qualified Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the financial statements of Rabaul Urban Local - level Government for the year ended 31 December, 2015:

- a) have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act 1995*; and
- b) Give a true and fair view of the financial position and the results of its operations for the year then ended in accordance with the Finance Instruction.

Other Matters

In accordance with the Audit Act, I have duty to report on significant matters arising out of the financial statements to which the report relates. The following are matters of significance:

- The Rabaul Urban Local Level Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act 1995*; and
- The receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*”.

6.3.4.2 Management Response

Management had not responded to my audit Management Letter queries. Consequently, I was not advised of any improvements at the time of preparation of this Report in September, 2017.

6.3.4.3 Status of Financial Statements

At the time of preparing this Report in September 2017, the Rabaul Urban Local-Level Government had not submitted its financial statements for the year ended 31 December, 2016 for my inspection and audit.

6.3.5 Nonga General Hospital

The Nonga General Hospital Board had submitted its financial statements for the years ended 31 December, 2014 and 2015. Field work associated with examination of the financial statements and audit of the accounts and records was completed with the Management Letters issued and the audit opinion reports also issued to the Ministers concerned. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.3.5.2 Comments on Financial Statement – 2015

My reports to the Ministers concerned and other relevant bodies under the *Organic Law and Audit Act* on the Nonga General Hospital Board's financial statements for the years ended 31 December, 2014 and 2015 were issued on 1st May and 10th May, 2017 respectively. The reports for the two years contained Disclaimer Audit Opinions with similar issues hence; only 2015 report is reproduced below:

Basis for Disclaimer Audit Opinion

Disclosure Errors

I noted the following disclosure errors which render the financial statements of Nonga General Hospital for the year ended 31 December, 2015 inaccurate, misleading and unreliable:

- I was unable to confirm the accuracy and completeness of the Hospital Operating and Hospital Fees Trust Accounts closing fund balances of K22,622 and K554,680 disclosed in the respective financial statements due to inherited errors and omissions of receipts and payments from prior years which were not corrected in the current year accounts.
- The total income of K17,613,239 disclosed in the statement of cash receipts and payments of the Hospital Operating Account had been materially misstated as it includes the Hospital's annual appropriation of K16,750,943 and prior year carry over funds totaling K819,187 in note 4. The prior year carry over funds had been accounted for as income in the year of receipt while the annual appropriations are merely budget estimates that had been erroneously taken up as actual receipts;
- The total expenditure on personal emoluments of K12,800,373 disclosed in the Statement of Receipts and Payments of the Hospital Operating Account is grossly inaccurate and misleading as it includes the Hospital's annual salaries and allowances budget estimates of K11,648,500 as against the actual expenditure on salaries and allowances of K14,944,760 as per the Hospital's 2015 Manpower/Payroll Audit Report. Consequently, the total expenditure on personal emoluments is both an understatement to the tune of K3,296,260 in view of the actual expenditure as well as misleading to the extent that it includes budget estimates that had been erroneously taken up as actual expenditure on salaries and allowances;

- The Schedule of Assets accompanying the Statements of Receipts and Payments of the Hospital Operating Account and Hospital Fees Trust Account showed a combined closing assets at historical cost of K7,513,398 as at 31 December, 2015. I observed however, that the closing assets at cost of K984,120 disclosed in note 4 – Schedule of Assets and the report on assets accompanying the statement of receipts and payments for Hospital Fees Trust Account was the same closing balance disclosed in the Statement of Cash Receipts and Payments for 2014. Further, the combined Hospital Operating and Fees Trust Accounts closing assets at historical cost of K7,513,398 and the Hospital Operating Account closing assets at cost of K6,529,278 are also misleading as the closing assets at historical cost per note 4 - schedule of assets for Hospital Operating Account had K8,766,770 in 2014 and therefore, the opening for 2015 which, if accurate, would have resulted in a greater yearend assets balance and an increased combined closing assets at historical cost as at 31st December, 2015 given the purchases and disposals per assets report for 2015 of K994,116 and K136,774 respectively; and
- The Assets Registers maintained by the Nonga General Hospital was incomplete and had not been updated to account for all assets transactions during the year.

Significant Control Weaknesses

My review of the accounts and records revealed significant control weaknesses including the following:

- The Statements of Receipts and Payments for the Hospital Operating Account and Fees Trust Account showed combined revenue receipt for the year ended 31 December, 2015 as K18,263,567. However, the Hospital did not maintain proper revenue heads and/or codes nor operated a computerized accounting system to ensure that all revenue received are accurately accounted for and recorded into the revenue ledgers. As such, I am unable to confirm the accuracy of the actual revenues received;
- Nonga General Hospital had expended funds totaling K395,219 from the Hospital Operating Account on Wages (vote item 112) which had no funding allocation provided in the 2015 Annual Appropriation;
- Nonga General Hospital had paid expenditures in respect of Overtime and Gratuities and other employee benefits under vote item 141 from the Hospital Operating Account as well as through the HRM ALESCO Payroll System resulting in a total over-expenditure of K375,611;
- Funds totaling K400,000 were transferred from the Hospital Operating Account into the Hospital Fees Trust Account based on the Hospital Board approval. However, I was not provided evidence to suggest that the transfer of a balance of K100,000 from the K400,000 was sanctioned and approved by the Board;
- The Hospital continued to violate the requirements for obtaining the three (3) required verbal and/or written quotations from suppliers to determine the most economical prices for goods and services procured;

- I observed most payments made in respect of purchases of medical supplies and equipment from outside of the province lacked valid supporting documents such as formal suppliers' invoices, goods delivery reports and airways bills/consignment notes from couriers as evidences to show that the quantity of goods ordered have been delivered and received intact;
- Nonga General Hospital did not have a duly appointed Certifying Officer and as such, all payment vouchers were not certified to determine the legitimacy and validity of the expenditures incurred prior to processing payment of the claims;
- The Chief Executive Officer and Director Corporate Services approve expenditure on Requisitions for Expenditure (FF3) as Section 32 Officer and Financial Delegate respectively and at the same time are signatories to the bank account. Consequently, there had been no segregation of duties in the expenditure authorization and approval processes;
- Examination of sampled expenditures on various minor contract works between K50,000 and K500,000 revealed the payment vouchers lacked the supporting appropriate documents including the required three (3) verbal and/or written quotations from suppliers, minor contract works agreements, job completion certificates or work in progress reports and the Hospital Board's approval of selected pre-qualified contractors;
- The Nonga General Hospital lacked proper monitoring and recovery exercises on travelling allowances and cash advances totaling K37,833 that had remained un-acquitted as at 31 December, 2015. Further, I observed payment of cash advances to pay-mistress from the Hospital Operating Account and Hospital Fees Trust Account totaling K94,171 that were not recorded as cash advances and consequently, had not been acquitted at year end;
- The Hospital did not maintain appropriate records of its creditors. In the absence of these records, I was unable to ascertain the total amount of outstanding commitments and liabilities as at 31 December, 2015;
- Proper accounting was not adhered to by way of journal entries using the double entry accounting principle to account for adjusting transactions of revenue and expenditure items in updating the cash book and corresponding ledger accounts in 2015; and
- The Hospital did not maintain adequate inventory records nor had an effective system and procedures in place to ensure important inventories are safeguarded and properly accounted for.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion

on the financial statements of Nonga Base Hospital for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act 1989*, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

Section 63(3) of the *Public Finances (Management) Act 1995* requires the Chief Executive to present the financial statements in a form and design approved by the Minister. I am, however, unable to confirm that the Minister has approved or has prescribed the format of the financial statements in terms of the *Public Finances (Management) Act 1995*”.

6.3.5.3 Management Response

The Hospital Board had fully responded to each of my audit queries with indication that it had taken steps or in the process to remedy issues highlighted as deemed appropriate.

6.3.5.4 Status of Financial Statements

At the time of preparing this Report in September 2017, the Nonga General Hospital Board had not submitted its financial statements for the year ended 31 December, 2016 for my inspection and audit.

6.3.6 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local-Level Governments Business Arms and other establishments.

I am aware of business arms of the East New Britain Provincial Government namely, East New Britain Development Corporation Ltd (ENBDCL) and Barakopo Plantation Development Corporation Ltd.

6.3.6A East New Britain Development Corporation Ltd

The East New Britain Development Corporation Limited (ENBDC) is a business arm of the East New Britain Provincial Government. It operates subsidiaries in various industries such as food retails, port services and construction. The main subsidiaries are as listed:

- Andersons Foodland Limited
- East New Briain Supermarkets Limited
- ENB Port Services Limited
- Dawapia Construction Limited

There is also a related entity – New Briain Copra and Cocoa Co-operative Limited.

6.3.6A.1 Status of Financial Statements

As in the past, the ENBDCL had engaged services of the private accounting firms to conduct audits of its accounts and records.

At the time of preparation of this Report in September 2017, the entity had submitted its financial statements for the financial years ending 31 December, 2013, and 2014. The examination of the financial statements and the audit of the accounts and records however, could not be conducted due to manpower and financial constraints faced by my Office.

The financial statements for the financial years ending 31 December, 2015 and 2016 had not submitted for my inspection and audit.

6.3.6B Barakopo Plantation Development Corporation Ltd

As at the time of preparing this Report in September, 2017, the Barakopo Plantation Development Corporation Ltd had failed to submit any recent financial statements for my inspection and audit.

6.3.6C Gazelle Restoration Authority

The Gazelle Restoration Authority was established by the *Gazelle Restoration Authority Act, 1995* following the volcanic destruction of Rabaul and the surrounding areas. The Authority is responsible for the cleaning up tasks, restoration of essential services in the affected areas and replacement of infrastructures. Program activities have been financed through funding arrangements with the International Bank for Reconstruction and Development (IBRD), European Union (EU) and partially through AusAID.

6.3.6C.1 Status of Financial Statements

At the time of preparation of this Report in September, 2017 the Gazelle Restoration Authority had not submitted its financial statements for the years ended 31 December, 2015 and 2016 for my inspection and audit

6.4 EAST SEPIK PROVINCE

6.4.1 Introduction

The East Sepik Provincial Government (ESPG), Wewak Urban Local-level Government (WULLG) and Wewak General Hospital (WGH) are audited every year, with or without financial statements. The Maprik Urban Local-Level Government was for the first time audited by my Office during this audit cycle. Other LLGs and Business Arms of the ESGP & LLGs within the Province could not be audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Governments.

6.4.2 East Sepik Provincial Government

The East Sepik Provincial Government (ESPG) had submitted its financial statements for the financial year ending 31 December 2015 for my inspection and audit. Fieldwork associated with the audit of the financial statements had been completed with a Management Letter issued and a Disclaimer Audit Opinion issued to the Minister concerned and other relevant bodies. The paragraphs below details the issues identified with the financial statements and the control environments:

6.4.2.1 Comments on Financial Statements – 2015

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in September, 2017. The report was a Disclaimer Opinion as reproduced below:

Basis for Disclaimer Opinion

Presentation of Financial Statements

Finance Instruction 4/2000 issued under *Section 117* of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation and presentation of the Financial Statements for Provincial and Local Level Governments. The Financial Statements of East Sepik Provincial Government for the year ended 31 December, 2015 did not contain the Governor's Declaration on the East Sepik Provincial Government's budget performance and the Provincial Government and Treasury Accounting Organization Chart as required. Subsequently, the financial statements were not presented in the format required by the *Finance Instructions*.

Opening Balances

Because of the disclaimer opinion issued in respect of the year ended 31 December, 2014 and of other limitations on the scope of my audit as noted below, I was not able to satisfy myself as to the completeness and accuracy of the opening balances. Since these opening balances would affect the determination of the financial position and the cash flows of the East Sepik Provincial Government in the current year, I was unable to determine whether

adjustments to the respective cashbooks and the financial positions, might have been necessary for the year ended 31 December 2015.

Cash balances

I am unable to express an opinion on the accuracy of the total fund balance of K16,755,533 for East Sepik Provincial Government as at 31 December 2015 due to:

- Significant reconciling items identified in the bank reconciliation statements of the operating, grant and provincial works trust accounts that had not been adjusted in the respective cashbooks and hence affected the balances and the subsequent total fund balance at year end. I was not provided explanations and documentary evidence of adjustments made if any. Consequently, I was unable to confirm the completeness and accuracy of the year-end cash at bank balances disclosed in the Statement 'A';
- Unpresented cheques dating back to 2010 in the ESPG grant account and the Provincial Works Trust Account were not written back to their respective cash books hence, these cash books were unreliable;
- The 2015 opening cash book balances for the Provincial Works and the Stormwater Trust Accounts did not agree to their 2014 audited closing balances. Consequently, I was unable to confirm the accuracy of the closing balances for these trust accounts;
- In the absence of the bank reconciliations for the Storm Water Drainage Project accounts and the Marienberg trust account I was unable to confirm the accuracy and completeness of their total cash book balances of K5,832,439 as at year then ended.

Receipts and Payments

I am unable to verify the completeness and accuracy of the receipts of K54,011,598 payments of K54,750,404 and the subsequent deficit of K738,805 in Statement 'B' and the related Statements 'J' and 'K' due to:

- The TMS 55 report on Staffing and Teacher's salaries grants component not recorded in the books of accounts and reported subsequently. Consequently, the Statements 'B', 'J' and 'K' did not appropriately show the financial performance of the provincial government during the year under review; and
- Reconciling items of revenue totaling K1,001,874 and expenditure totaling K899,147 were not posted to the revenue ledgers and the cash book and hence, not reported in statements 'B', 'J' and 'K'. I was not provided explanations and documentary evidence of adjustments made if any. Consequently, I was unable to confirm the completeness and accuracy of the receipts and payments;

Investments

The East Sepik Provincial Government had a business arm such as Sepik Coffee and shares held with South Sea Tuna. Records pertaining to these investments were not made available for my examination and as such I was unable to confirm the nil balances disclosed in statements 'E' and 'F'.

Assets

Good asset management was not practiced and in the absence of a complete assets register, annual stock-takes and proper assets policy, I was unable to confirm the existence, custody, condition and value of assets owned by the East Sepik Provincial Government as at 31 December, 2015. Furthermore, assets totaling K635,288 purchased during the year could not be confirmed in absence of the asset register.

Advances

Appendix 6 revealed total un-acquitted advances of K14,692,806 as at 31st December 2015. In the absence of proper records such as advance register, acquittal files, reminder notices and evidence of recovery actions taken against defaulters, I was unable to confirm the accuracy and completeness of the total un-acquitted advances as at year end.

The Management had since responded to my audit observations relating to the disclosures in the financial statements and had assured me of its commitment to make improvements in areas concerned in future.

Significant Control Weaknesses

There was significant control weaknesses identified in the Provincial Government's records and processes, as follows:

- a) Budget estimates for all the trust accounts were not prepared and submitted to the Minister for Treasury for approval as required under the trust instrument in accordance to the *Public Finance Management, Act*;
- b) The Provincial Government did not maintain a proper customer data base with an effective billing system in the revenue section for the collection of revenue from the major internal revenue sources such as Goods and Services Tax (GST), Liquor Licensing Fees and Motor Traffic Registration Fees resulting in under collection of internal revenue totalling K3,074,620. Further, evidence of check and balances were non-existent and segregation of duties being the key element of control was lacking. Staff were performing overlapping tasks in cash collection, receipting, recording and banking;
- c) I was unable to establish if the East Sepik Provincial Supply and Tenders Board (PSTB) was functioning effectively in ensuring that proper procurement procedures were adhered to in incurring major procurements of goods and services in the province due to PSTB meeting minutes, prequalification listing of contractors, Technical and Evaluation Committee (TEC) evaluation and analytical reports,

tenders and quotations registers and tender documents were not made available for my examination. Consequently, I was unable to establish if requirements for procurement of goods and services were adhered to.

- d) Appointment Instruments of all Financial Delegates and Authorized Requisitioning Officers (ARO) and their specimen signatures were not maintained and produced for my examination when requested. Consequently, I was not able to verify the names and signatures on the requisitions raised and processed for payment; and
- e) My examination of Paid Accounts on sample basis revealed unsatisfactory matters where economical purchasing practices were not seriously observed to maximize acquisition of goods and services with limited resources:
 - Three (3) quotations were not obtained in almost all payment vouchers sighted. This practice departure from the requirements proper procurement procedures as per the *Financial Manual* and payments totaling K2,531,136 were charged to incorrect expenditure votes;
 - Financial Assistance totalling K1,185,486 and grants/subsidies totalling K3,495,026 were paid to individuals and other organisations. In the absence of proper policies and guidelines for accountability over these payments, I was unable to ensure the validity of these payments;
 - Expenditures totaling K837,075 were paid to Bank South Pacific (BSP) for airfares for officers. There was no evidence of actual airfares being issued. In the absence of proper controls, there was high possibility of officers en-cashing the cheques;
 - Expenditures totaling K643,896 were paid to Travel and Logistics Agent, a travel agent based in Wewak, for travel expenses including airfares and accommodation for officers of the Provincial Government. These payments were seen to be non-compliance to requirements of proper procurement procedures and the requirement for acquittal stipulated in the *Public Finances (Management) Act*;
 - Payments totaling K2,803,690 were made to private car companies for hire of vehicles. In the absence of proper procurement procedures, these vehicle hire companies appeared to be handpicked thus resulting in the excessive and unjustifiable hire costs;
 - A total amount of K2,048,649 was paid to various fuel suppliers during the year. In the absence of an effective control mechanism to monitor the supply and usage of fuel for the vehicle fleets, I was unable to ensure if the fuel account was used with due care for wastage and extravagant;
 - Payments totaling K1,632,633 for minor capital works and maintenance were paid to various contractors. Tender documents, Progress inspection reports, selection criteria and completion certificates were not sighted to confirm that projects were properly awarded and satisfactorily completed. In the absence of duly signed contracts, I was unable to ensure the validity of these payments; and

- Tender documents and formal contracts managed and paid through the Provincial Works Trust Account were not provided for my review. These included projects for the Back filling of the sports stadium playing field-by Wanem Ya Ltd, Police Housing Project at Yawasoro by BC Civi Works, a consultancy services provided by Arhitechural Aalliance and construction of 40 police houses by Dieter Serice Engineering. Reports pertaining to inspection and completion of these projects were not provided for my review. Consequently, I was unable to ensure if these projects were executed with due care for waste and extravagant.

Disclaimer Audit Opinion

In my opinion, because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of East Sepik Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- the East Sepik Provincial Government did not maintain proper accounts and records and has consequently breached *Section 68(1) of the Public Finances (Management) Act, 1995*;
- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*; and
- The East Sepik Provincial Government has not prepared and submitted its financial statements for the year ended 31 December, 2015 to the Minister and the Auditor-General within the required timeframe in contravention to *Sections 114 and 119 of the Organic Law on Provincial and Local Level Governments.*”

6.4.2.2 Management Response

The above observations on the internal control weaknesses had been communicated by way of Management Letters to the Provincial Administrator and Management together with implications and recommendations for improvements. The Management had since responded to my audit observations and recommendation for improvement relating to the internal control issues and had assured me of its commitment to making improvements in areas concerned in future.

6.4.2.3 Status of Financial Statements

The East Sepik Provincial Government had not submitted its financial statements for the year ended 31 December, 2016 for my inspection and audit. However, the interim audit on the control environment had been completed in the absence of the financial statements and the results were being evaluated at the time of preparing this Report in September 2017.

6.4.3 Wewak Urban Local-level Government

The Wewak Urban Local-level Government (ULLG) submitted its financial statements for the years ended 31 December 2012, 2013, 2014 and 2015. Field work associated with the examination of these financial statements and audit of the accounts and records had been completed with all the Management Letters and Audit Opinion Reports issued. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.4.3.1 Comments on Financial Statements – 2015

My reports to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the Wewak Urban Local Level Government's financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 were issued in July 2017. The reports contained similar Disclaimer Audit Opinions hence, only the 2015 report is reproduced as follows:

Basis for Disclaimer Opinion

Presentation of Financial Statements

Finance Instructions 5/2000 issued under *Section 117* of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation and presentation of the financial statements for Local Level Governments. The financial statements of Wewak Urban Local Level Government for the year ended 31 December, 2015:

- did not contain the statement on the budget performance of the Wewak Urban local Level Government by the Town Mayor;
- did not contain the Statement of the District Administrator's Declaration of the Financial Statements in accepting responsibility on the disclosure of data and information provided on the financial affairs of Wewak Local-Level Government; and
- The statements were not signed by the senior management as required.

These statements are written representations by the management in which management acknowledges its responsibility for the fair presentation of the financial statements and it also represents a means of approving the financial statements. Since the management has not provided the necessary representations this constitutes a scope of limitation and affects every statement of the financial statements. Subsequently, the financial statements

were not presented in the format required by the Finance Instructions.

Incorrect amounts presented in thousands

The financial statements of Wewak ULLG for the year ended 31 December, 2015 are misleading as a result of error in the presentation of the statements. Namely, amounts in Statements 'A' to 'I', Appendices 1 and 2 and Notes 3 to 14 and 16 to 17 of the notes to and forming part of the financial statements were incorrectly presented in amounts of 'thousands' ('000) instead of the original amounts.

Prior Year Balances

The prior year comparative balances disclosed in financial statements for the year ended 31 December, 2015 were incorrect and inconsistent to the balances per the 2014 audited financial statements. I have carried out appropriate audit procedures regarding the opening balances of the current period and the comparative balances. However, I was not able to obtain sufficient audit evidence to ensure completeness and accuracy of the opening fund balances and the prior year comparative balances as reported

Opening Balances

Because of the disclaimer of opinions issued in respect of the years ended 31 December, 2014 and prior years and of other limitations on the scope of my audit as noted below, I was not able to satisfy myself as to the completeness and accuracy of the opening balances. Since these opening balances would affect the determination of the financial position and the cash flows of the Wewak Urban Local-Level Government in the current year, I was unable to determine whether adjustments to the respective cashbooks and the financial positions, might have been necessary for the year ended 31 December 2015.

Cash balances

I am unable to express an opinion on the accuracy of the cash at bank and trust account balances respectively and consequently, on the financial position of Wewak Urban Local Level Government accumulated fund balance of K28,302 as at 31 December, 2015 due to:

- a) the accumulated total fund balance of K28,303 in Statement 'A' is not adequately represented by the cash balance of K5,306 resulting in a variance of K22,996. The representation of the bank balances does not reflect the fund balance rendering the statement as incorrect, incomplete and unreliable;
- b) the LLG Fund balance of (K640,085) in statement 'A' does not reflect the details shown in note 3 totaling (K611,782.62) resulting in a variance of K28,303. Further, the cash balances in both Statement 'A' and note 6 do not reflect the reconciled cashbook balance of K459,358;
- c) The details of the Trust Fund of K668,388 are not shown in note 4 and note 4 are not reflective of Statement 'C'. Also, the opening balances for the funds in note 4

are different from the prior year ending balances;

- d) The Bank Reconciliations of the Wewak Urban Local-Level Government's bank account were not properly and correctly done during the year as significant reconciling items carried forward since 2004 were not cleared. These items had not been adjusted in the cashbook thus affected the balance at year end. In addition, independent confirmation of bank balances was not provided by the bank; and
- e) Wewak Urban LLG had opened and operated a separate bank account (Account number: 1002 843 025) to cater for the Town Market Fees collection. This account was opened without the prior approval from the Secretary for Finance. Further, the receipts and payments out of this account and the subsequent bank balance were not captured and reported in Statements 'A', 'B', 'J' and 'K'. The records maintained for this account were not provided for my verification.

I was not provided sufficient and appropriate documentation including the required explanations for the errors and discrepancies noted above. Consequently, I was unable to verify and confirm the validity, completeness and the accuracy of the total accumulated balance as at 31 December, 2015;

Receipts and Payments

I am unable to verify the accuracy of the receipts of K1,129,096 and payments of K1,769,181 and subsequently the accuracy of the deficit of K640,085 for the year ended 31 December, 2015 due to:

- a) Reconciling items of revenue totaling K178,963 and expenditure totaling K9,347 were not posted to the respective revenue and expenditure ledgers and the cash book and hence, not reported in statements 'B', 'J' and 'K'. I was not provided explanations and documentary evidence of adjustments made if any. Consequently, I was unable to confirm the completeness and accuracy of the receipts and payments; and
- b) Takings from the market were not banked and accounted for in the books of the urban local-level government and the rentals from properties inside the market rented out were also not receipted and accounted and hence not reported in statements 'B' and 'J' of the financial statements. I was not provided sufficient and appropriate documentation including the required explanations for the discrepancies. Consequently, I was unable to confirm the completeness and accuracy of the total receipts for the year ended 31 December 2015.

Debtors

Appendix 2 reported nil debtors as at the year ended 31 December, 2015. Debtor ledgers maintained for uncollected debts in respect of all revenue heads were not adequately updated during the year and long outstanding debts were not followed up and action taken for recovery of debts resulting in significant shortfall in revenue collection. I was not provided with satisfactory explanation and supporting documentation of the inadequate

maintenance of the debtors ledgers. Consequently, I was unable to ascertain the validity and accuracy of the nil balance for debtors.

Assets

The appendix 4 of the financial statements showed Assets as *Nil* for the year ended 31 December 2014. An Assets Register was not maintained and stock takes of assets and inventories were not carried out during the year. In the absence of a complete Assets Register and annual stock takes, I was unable to confirm the value, completeness and existence of assets owned by and in the custody of Wewak Urban Local-level Government as at 31 December, 2014.

Advances

Appendix 6 of the financial statements reported un-acquitted advances as *nil* as at the year ended 31 December, 2015. The Wewak Urban Local-Level Government did not maintain a comprehensive advances register and I was not provided a proper and accurate reconciliation of the outstanding advances for the year then ended. Consequently, I am able to ascertain the accuracy of the total advances paid during the year and establish the total amount of un-acquitted advances at year end.

Significant Control Weaknesses

There were significant control weaknesses identified in the Provincial Government's records and processes, as follows:

- The Wewak Urban Local-Level Government did not maintain a proper customer database with names, addresses, details of locations with an effective billing system in the revenue section resulting in collections of revenues from internal revenue heads especially the land rates, sanitation & garbage and the Trading licenses were done on an ad hoc basis and billing of client/debtors were not done on a timely basis resulting in significant arrears outstanding. Further, I could not establish the total debts outstanding as at year end due to poor record maintenance;
- Segregation of duties in the collection, receipting and banking of cash daily and preparation of collector statements was lacking. The cashier performed all responsibilities including being the custodian of unbanked cash and safe cabinet which posed a high risk of abuse and misuse of cash collection;
- The Wewak Urban Local-Level Government appointed a market management to manage the operations of the market including collection and banking of market and other fees on its behalf. In the absence of a memorandum of understanding or an agreement in place between the market management and the Wewak Urban Local-Level Government and cashbooks and related records. I was unable to establish the legitimacy of the arrangement and confirm if all moneys collected were banked intact and brought to account in the books of Wewak Urban Local-Level Government;

- A number of businesses was conducted within the Market premises without paying any rentals to Wewak Urban since they started operating. Hence a loss of revenue to the Wewak Urban Local-Level Government;
- A contract to justify the payment of security services fees in 2014 and 2015 and the rent free space in the market premises was not made available for my examination. Hence, I was not able to establish the validity of the rentals paid and the free use of the space within the market premises;
- Collections banked totaling K86,368 could not be traced to the collectors statements and the bank statements and also could not establish to which bank account these takings were deposited. Further, official receipts were noted to be not issued by the cash office for the market collections;
- There is no systematic procedure in place for procurement of goods and services. Quotations were not obtained from three (3) suppliers as required and no quotation register sighted to verify the existence of quotations obtained for purchases of goods and services;
- The specimen signatures of the duly appointed Financial Delegates and Requisitioning Officers were not maintained properly. Also the signatures for Financial Delegates could not be verified;
- Inspection reports and completion certificates/ reports were not found in the files for contract works. As a result, I was not able to ensure if value for money were derived from these expenditures;
- Proper and efficient filing system was lacking as personnel files were not in their current state and lacked up to date records and important information necessary for calculation of wages and entitlements; and
- Wages were under taxed while Councilor's Allowances were paid without deducting tax. Tax declaration forms were not lodged with the Internal Revenue Commission (IRC) to enable correct deduction of tax from the wages and allowances.

Disclaimer of Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of the Wewak Urban Local-Level Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)*, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- the Wewak Urban Local Level Government does not maintain proper accounts and records and has consequently breached *Section 68(1) of the Public Finances (Management) Act, 1995*;
- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*.
- Wewak Urban Local-Level Government had opened and operated a separate bank account (Account number: 1002 843 025) to cater for the Town Market Fees collection. This account was opened without the approval of the Secretary for Finance and has consequently breached *section 11(2) of the Public Finances (Management) Act, 1995*;
- the Wewak Urban Local Level Government did not have a five (5) year corporate plan and has consequently breached the *Public Service General Order No. 8.11*; and
- The Wewak Urban Local Level Government has not prepared and submitted its financial statements to the Minister and the Auditor-General prior to the year ending 31 December 2015, resulting in breach of *section 114 and 119 of the Organic Law on Provincial and Local Level Governments.*”

6.4.3.2 Management Response

The above observations on the internal control weaknesses had been communicated by way of Management Letters to the District Administrator and Management together with implications and recommendations for improvements. I have however, not received the responses to the Management Letters as at the time of preparing this Report in September 2017.

6.4.3.3 Status of Financial Statements

The Wewak ULLG had not submitted its financial statements for the financial year ended 31 December 2016 for my inspection and audit at the time of writing this Report in September 2017.

6.4.4 Maprik Urban Local-level Government

The Maprik Urban Local-level Government (ULLG) submitted its financial statements for the years ended 31 December 2013, 2014 and 2015. Field work associated with the examination of these financial statements and audit of the accounts and records had been completed with all the Management Letters and Audit Opinion Reports issued. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.4.3.1 Comments on Financial Statements – 2015

My reports to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the Maprik Urban Local Level Government's financial statements for the years ended 31 December 2013, 2014 and 2015 were issued in July 2017. The reports contained similar Disclaimer Audit Opinions hence, only the 2015 report is reproduced as follows:

Basis for Disclaimer Opinion

Presentation of Financial Statements

Finance Instructions 5/2000 issued under *Section 117* of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation and presentation of the financial statements for Local Level Governments. The financial statements of Maprik Urban Local Level Government for the year ended 31 December, 2015:

- Did not contain the statement on the budget performance of the Maprik Urban local Level Government by the Town Mayor;
- District Administrator's Declaration of the Financial Statements in accepting responsibility on the disclosure of data and information provided on the financial affairs of Maprik Local-Level Government was unsigned; and
- The statements were not signed by the senior management as required.

Subsequently, the financial statements were not presented in the format required by the Finance Instructions. These statements are written representations by the management in which management acknowledges its responsibility for the fair presentation of the financial statements and it also represents a means of approving the financial statements. Since the management has not provided the necessary representations this constitutes a scope of limitation and affects every statement of the financial statements.

Incorrect amounts presented in thousands

The financial statements of Maprik ULLG for the year ended 31 December, 2015 are misleading as a result of error in the presentation of the statements. Namely, amounts in Statements 'A' to 'I', Appendices 1 and 2 and Notes 3-17 of the notes to and forming part of the financial statements were incorrectly presented in amounts of 'thousands' ('000) instead of the original amounts.

Opening Balances

Because of the limitation of scope from disclaimed audit opinion in the prior year and of other limitations on the scope of my audit as noted below, I was not able to satisfy myself as to the completeness and accuracy of the opening balances. Since these opening balances would affect the determination of the financial position and the cash flows of the Maprik Urban Local-Level Government in the current year, I was unable to determine

whether adjustments to the respective cashbooks and the financial positions, might have been necessary for the year ended 31 December 2015.

Cash balances

I am unable to express an opinion on the accuracy of the cash at bank and consequently, on the financial position of Maprik Urban Local Level Government accumulated fund balance of K47,210 as at 31 December, 2015 due to:

- Complete and enabling records such as Cashbooks, bank reconciliation statements and bank statements were not made available for my examination; this constituted a limitation of scope. Consequently, I was not able to verify the accuracy and completeness of the cash balances and the subsequent Fund balance of K47,210 as at the year end. In addition, the operating deficit for the current year was materially misstated as discussed under the paragraph of Receipts and Payments.
- The comparative Surplus/(Deficit) for the year as per Statement 'B' for the 2014 financial year reported in note 3 of the financial statements was different from the comparative balance presented in Statement 'B' and the prior year's financial statements. I was not provided explanations and documentary evidence of adjustments made if any. Consequently, I was unable to confirm the accuracy and consistency in the disclosure of the prior year comparative balances in the financial statements

Receipts and Payments

Statement 'B' disclosed the summary of Receipts and Payments with an operating deficit of K138,840. I am unable to verify the accuracy and completeness of the receipts and payments and subsequently the accuracy of Statement 'B' and the related Statements 'J' and 'K' and Statement 'D' due to the mandated records such as the trial balance, summary reports of revenue and expenditure and their respective ledgers were not made available for my examination. This constituted a limitation of scope. In addition, the 2014 comparative balances reported in Statements 'B' and 'D' were noted incorrect and inconsistent to the balances reported in the 2014 financial statements.

Assets

The appendix 4 of the financial statements showed Assets as *Nil* for the year ended 31 December 2015. An Assets Register was not maintained and stock takes of assets and inventories were not carried out during the year. In the absence of a complete Assets Register and annual stock takes, I was unable to confirm the value, completeness and existence of assets owned by and in the custody of Maprik Urban Local-level Government as at 31 December, 2015.

Advances

Appendix 6 of the financial statements reported un-acquitted advances of K35,580 as at the year ended 31 December, 2015 whilst the note forming the statement (note 17)

reported outstanding advances of K49,390 as at year ended 31st December 2015 resulted with a variance of K13,810. The Maprik Urban Local-Level Government did not maintain a comprehensive advances register and I was not provided an explanation on the variance between the appendix 6 and note 17. Consequently, I am able to ascertain the accuracy of the total advances paid during the year and establish the total amount of un-acquitted advances at year end.

Significant Control Weaknesses

There was significant control weaknesses identified in the Maprik Urban Local Level Government's records and processes, as follows:

- The collector's statements, bank deposit butts and bank statements for the year were not made available for audit examination. Consequently, I was not able to comment on the completeness and accuracy of the collections, banking, and reporting of the revenue receipts. In addition, due to absence of the above records, I was not able to apply audit procedures to determine on the extent of existence of debtors if any;
- Proper and relevant accounting records pertaining to procurement and payment of goods and services were not available for audit examination. Hence, there was limitation of scope on the application of audit procedures to gain reasonable assurance on the financial transactions as to whether compliance to statutory regulations and the financial records were maintained fairly;
- There was no evidence to confirm that three (3) quotations is obtained for all payment nor was a quotations register maintained during the year in compliance to the proper procurement procedures stipulated under the Financial Management Manual;
- Appointment Instruments for Section 32 Officers and Financial Delegates and their specimen signatures were not maintained. Hence I was not able to ensure if requisitions for payments were approved by duly approved section 32 officers and the financial delegate within their financial limit;
- There was no evidence of employee records being maintained such as employee personal files and approved staff ceiling, and pay listing. As a result, I was not able to ensure the total number of staff employed and their respective salary grade;
- There was lack of relevant records such as the payroll printout, tax declarations and the approved pay listing. As such I was not able to ensure that wages totaling K K86,350 was process and paid accordingly; and
- Non-compliance with Advances Management was observed as Cash and travel advances were not acquitted within seven (7) days of return from duty travel, new advances were given to Officers while their previous advances were still un-acquitted, and follow-up actions were not taken to have the advances acquitted promptly.

Disclaimer of Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of the Maprik Urban Local Level Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)*, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- The Maprik Urban Local Level Government does not maintain proper accounts and records and has consequently breached *Section 68(1) of the Public Finances (Management) Act, 1995*;
- The receipts and payments and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*.
- the Maprik Urban Local Level Government did not have a five (5) year corporate plan and has consequently breached the *Public Service General Order No. 8.11*; and
- The Maprik Urban Local Level Government has not prepared and submitted its financial statements to the Minister and the Auditor-General prior to the year ending 31 December 2015, resulting in breach of *section 114 and 119 of the Organic Law on Provincial and Local Level Governments*.”

6.4.3.2.1 Management Response

The above observations on the internal control weaknesses had been communicated by way of Management Letters to the District Administrator and Management together with implications and recommendations for improvements. I have however, not received the responses to the Management Letters as at the time of preparing this Report in September 2017.

6.4.4 Wewak General Hospital

6.4.4.1 Status of Financial Statements

The Wewak General Hospital had submitted its financial statements for the year ended 31 December 2015. Fieldwork associated with the audit of the accounts and records had been completed and the results are being evaluated at the time of preparing this Report in September 2017.

The financial statements for Wewak General Hospital for the year ended 31 December 2016 had not been submitted for my inspection and audit at the time of writing this Report in September 2017.

6.4.5 Business Arms

Section 16 (2) (f) of the *Audit Act, 1989* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-Level Government Business Arms and other establishments.

I am aware that East Sepik Provincial Government had a number of business arms including Sepik Coffee and shares held with South Sea Tuna. Records pertaining to these investments were not made available for my examination and as such I was unable to comment on the operations and financial results of these entities.

6.5 EASTERN HIGHLANDS PROVINCE

6.5.1 Introduction

Eastern Highlands Provincial Government, Goroka Urban Local-level Government, Eastern Highlands Provincial Health Authority and Provincial Government Business Arms are audited every year, with or without financial statements. Other Local-level Governments and the Business Arms of the Governments could not be audited due to manpower and financial constraints faced by my Office and the lack of records and support from the respective entities in the Eastern Highlands Provincial Governments domain.

6.5.2 Eastern Highlands Provincial Government

The Eastern Highlands Provincial Government submitted its Financial Statements for the year ending 31 December, 2015 and the audit of the accounts and records was completed and in March, 2017. The final Management Letter and the audit opinion report for 2015 was issued to the Ministers concerned and other relevant bodies in April, 2017. The audit report issued was a Disclaimer Audit Opinion. Issues identified with the financial statements and the control environments are reproduced in the paragraphs below.

6.5.2.1 Financial Statements – 2015

My Report to the Ministers concerned and other relevant bodies under the *Organic Law on Provincial Governments and Local Level Governments and the Audit Act, 1989 (as amended)* was issued in April, 2017. The report was a Disclaimer of Opinion as reproduced below:

Basis for Disclaimer Opinion

Report on the Financial Statements

Disclosure Errors

The financial statements of Eastern Highlands Provincial Government for the year ended 31 December, 2015 comply with the format prescribed by *Finance Instruction 4/2000*. However, I am unable to express an opinion on the accuracy and completeness of the financial statements as the financial statements were not authenticated as prescribed.

Opening Balances

Because of the disclaimer of opinion issued in respect of the year ended 31 December, 2014 and because of other limitations on the scope of my audit as noted below, I was not able to satisfy myself as to the completeness and accuracy of the opening bank balances. Since these opening balances would affect the determination of the financial position and the cash flows of the Eastern Highlands Provincial Government in the current year, I was unable to determine whether adjustments to the respective Cashbooks, financial position and the cash flows, might have been necessary for the year ended 31 December, 2015.

Statement A - Cash Balances

I am unable to express an opinion on the accuracy of the negative Fund balance of K61,846,997 of the Eastern Highlands Provincial Government for the year ended 31 December, 2015 due to the following reasons:

- a) The Fund Balance of negative K61,846,997 is represented by bank and investment balance of K20,834,579 resulting in a negative difference of K82,681,576 as at 31 December, 2015. However, the Provincial Administration did not provide the necessary documentation, the required explanation or the reconciliation for the significant discrepancy.
- b) The Provincial Revenue Fund was disclosed as negative K62,069,233. However, it was stated in Note 3 to the accounts as K20,612,344 resulting in a difference of K41,456,889. Further, in Note 3 the beginning balance of K8,494,789 is incorrect as it does not correspond to the 2014 comparative figure of K8,382,494 stated in Statement A.
- c) The Trust Fund balance disclosed as K222,236 is a dormant book value carried over from previous years. I was not provided reconciliation, explanations and documentary evidence for the balance. Consequently, I was unable to verify the Trust Fund balance of K222,236 for the year ended 31 December, 2015.
- d) Included in the Bank balance of K20,834,579 is a negative balance of K398,355. As stated in Note 6.3 this amount is disclosed as "Other Accounts". However, I am unable to verify and confirm the validity and the accuracy of the account balance as it had been used as a carry forward reconciling item without proper and adequate supporting documentation from prior years including the year ended 31 December, 2015.
- e) Further, the Fund balance in Statement "A" is represented by the un-reconciled cash balances of Revenue and Trust Accounts. My examination of the bank reconciliation of the Grant and the Provincial Government Operating accounts revealed significant outstanding reconciling balances inherited from prior years and continue to recur as reconciling items for the year ended 31 December, 2015.

I was not able to verify the validity and the correctness of the disclosures in the Statement "A" as I was not provided the necessary documentation, the required explanation or the reconciliation for the significant discrepancies. Consequently, I am unable to satisfy myself even for results or consequences of the inaccuracies and errors cumulating in the overall Fund balance.

Receipts and Payments

Statement "B" disclosed the Summary of the Receipts and Payments with an operating deficit of K12,117,555. I am unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the Statement "B" and the related Statements "J" and "K" as there were significant un-reconciled items identified in the bank reconciliation statements of the Eastern Highlands Provincial Government Operating and Grant

Accounts relating to receipts and expenditure that were not adjusted in the cashbooks and the revenue and expenditure ledgers and disclosed in Statements “J” and “K” with consequential effects on Statements “B” and the cash balances reported in Statement “A”.

Assets

The Appendix 4 of the financial statements stated Assets as Nil for the year ended 31 December, 2015. However, I was provided a Register of Fixed Assets for the prior year’s up to 2010. This register was not updated in the respective years after 2010 and did not include additions during the year 2015, totaling K1,194,761. The list provided did not include necessary details including, date of purchases, costs, useful life, locations and obsolesce of the Assets under the Administration’s care and possession. In the absence of an updated and complete Assets Register, I was unable to confirm the value, completeness and the validity of the Assets in the custody of the Eastern Highlands Provincial Government and the disclosure made in Appendix 4 for the year ended 31 December, 2015.

Advances

Appendix 6 of the Financial Statements disclose K1,655,240 as outstanding advances for the year ended 31 December, 2015. However, in Note 17 outstanding advances brought forward from 2014 were stated as K1, 572,689. I was not provided a proper and accurate reconciliation of the outstanding advances and the un-acquitted advances for the year end. As a result, I am unable to ascertain the correctness, validity and the recovery of the outstanding public monies for the year ended 31 December, 2015.

Report on other Legal and Regulatory Requirements

In addition to the scope limitation and deficiencies in the accounts and records noted above, I also wish to report on the breaches of the Organic Law on Provincial Governments and Local-level Governments, and the *Appropriation Act, 2014 the Public Finances (Management) Act, 1995 (as amended)* and the *Public Service (Management) Act, 1995* and other enabling legislations.

Budgetary Control

The Provincial Government passed the *Original Amended Appropriation Act, No. 1 of 2015* authorizing a total of K307,680,600 on 29 January, 2015 to be expended for the year, 2015. The Original budget revealed no top up and withdrawals. However, there was a shortfall of revenue and an under expenditure of K245,611,367 and K257,728,922 respectively. I was not provided an explanation or the necessary documentation for the significant variances culminating to noncompliance with Budgetary Protocols and legislations.

Procurement and Payment

There were significant control weaknesses in the Eastern Highlands Provincial Government's maintenance of the accounting records and processes resulting among others these anomalies:

- Grants totaling K3,262,120 were paid to various recipients during the year. Except for the Local Level Governments, the Provincial Government's Policy Guideline for Grants and Financial Assistance to Organizations, Groups and Individuals and the Accountability Reports from the grant recipients were not provided for my review and audit,
- 17 payment vouchers totaling K577,616 were not provided for audit verification and 12 payments totaling K287,228 were made without obtaining the required three (3) written quotations. As a result, I was unable to validate the veracity and the propriety of these payments.
- Consultancy and legal payments total K691,571 were made during the year, 2015. However, I was not provided any form of documentation or explanations for the engagement of those lawyers and consultants. As a result, I am unable to verify the veracity of the payments made respectively during the year ended 31 December, 2015.
- I continue to highlight the probity of the payments made for the purpose of a "Goroka Market Development". A total of K17 million was paid in 2013 and 2014 and these payments may have by passed the PSTB procurement procedures and guidelines.

Further, I was not provided necessary explanations or documentation regarding these payments and the status of the market development since I initially enquired in 2013. Consequently, I am unable to confirm and verify the validity and the correctness of these payments totaling K17 million.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and accordingly, I am unable to express an opinion on the financial statements of the Eastern Highlands Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- the Eastern Highlands Provincial Government does not maintain proper accounts and records in terms of its receipts, payments, investment of moneys, the

acquisition and disposal of assets and had consequently breached *Section 68(1)* of the *Public Finances (Management) Act, 1995*;

- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*, and
- Eastern Highlands Provincial Government has not prepared and submitted its financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December, 2015, resulting in breach of *Section 114* and *119* of the *Organic Law on Provincial and Local Level Governments*.”

6.5.2.2 Management Response

Management had not responded to the matters raised in my Management Letters. Consequently, I was not advised of any improvement at the time of preparing this Report.

6.5.2.3 Status of Financial Statements

The financial statements for the year ended 31 December, 2016 had not been submitted for my inspection and audit at the time of preparing this Report in August, 2017.

6.5.3 Goroka Urban Local-level Government

6.5.3.1 Status of Financial Statements

The Goroka Urban Local-level Government (GULLG) had not submitted its Financial Statements for 2014, 2015 and 2016 at the time of writing this Report in August, 2017 for my inspection and audit. The field work associated with the interim audit of the control environment for 2015 and 2016 were not completed and the results of the audit will be reported in my 2017 Part 3 Report.

6.5.4 Eastern Highlands Provincial Health Authority

6.5.4.1 Status of Financial Statements

Financial Statements for the years ended 31 December, 2014 and 2015 were submitted for my inspection and audit. At the time of preparing this report, the results of the respective audits were being evaluated. The delay was due to management problems within the Eastern Highlands Provincial Health Authority.

6.5.5 Business Arms

The four business arms of the Eastern Highlands Provincial Government, namely; Akogere Estate Limited, Nokondi Investments Limited, Al's Auto Repairs and Eastern Highlands Property Developers Limited were established by the Provincial Government to engage in different business activities and generate income and with the realized returns to be paid back into the provincial government.

6.5.5A Akogere Estate Limited

According to the 2015 accounts of Eastern Highlands Provincial Government, the Government has invested initial capital of K1, 130, 567 in this company back in 1998. The Akogere Estate Limited is an unlisted Company registered under the Papua New Guinea *Companies Act, 1997*.

6.5.5A.1 The Activities of the Company

The principle activity of the Company during the year was property investment.

6.5.5A.2 Status of Financial Statements

At the time of preparing this Report, the Akogere Estate Limited had not submitted its financial statements for the years ended 31 December, 2010 to 2016 for my inspection and audit.

6.5.5B Nokondi Investments Limited

According to the 2015 financial statements of Eastern Highlands Provincial Government, the Government has invested initial capital of K501,148 in this company back in 1998. The Nokondi Limited is an unlisted Company registered under the Papua New Guinea *Companies Act 1997*, operating in property investment business.

6.5.5B.1 The Activities of the Company

The main activity of the Company was among others to invest in property investments in Goroka, Eastern Highlands, PNG and elsewhere with realized returns that will benefit the people of Eastern Highlands.

6.5.5B.2 Status of Financial Statements

At the time of preparing this Report, the Nokondi Investments Limited had not submitted its financial statements for the years ended 31 December, 2010 to 2016 for my inspection and audit.

6.5.5C Al's Auto Repairs Limited

According to the 2015 financial statements of Eastern Highlands Provincial Government, the Government has invested initial capital of K94,581 in this company back in 1998. The Al's Auto Repairs Limited is an unlisted Company registered under the Papua New Guinea *Companies Act 1997*, operating in property investment business.

6.5.5C.1 Status of Financial Statements

At the time of preparing this Report, the Al's Auto Repairs Limited had not submitted its financial statements for the years ended 31 December, 2010 to 2016 for my inspection and audit.

6.5.5D Eastern Highlands Property Developers Limited**6.5.5D.1 Status of Financial Statements**

At the time of preparing this Report, the Eastern Highlands Property Developer Limited had not submitted its financial statements for the years ended 31 December, 2010 to 2016 for my inspection and audit.

6.6 ENGA PROVINCE

6.6.1 Introduction

The Enga Provincial Government, Wabag Urban Local-level Government, Wabag General Hospital, Enga Children's Fund and Pogera District Development Authority are audited every year, with or without financial statements. Other LLGs and the Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Governments.

6.6.2 Enga Provincial Government

The Enga Provincial Government submitted its financial statements for the year ended 31 December 2015 and the fieldwork associated with the audit of accounts and records were completed with the Management Letters issued and a Disclaimer Audit Opinion was issued to the Ministers concern. The issues identified with the financial statements and the control environments are reproduced as follows:

6.6.2.1 Comments on Financial Statements – 2015

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in September 2017. The report was a Disclaimer of Opinion as reproduced below:

“Basis for Disclaimer Opinion

Cash Balances

I am unable to express an opinion on the accuracy of the Cash balances totaling K19, 145,587 and consequently, on the financial position of Enga Provincial Government as at 31 December, 2015 due to the following issues:

- The opening Cash Balances brought forward from previous years contained significant errors and omissions. Since these opening balances would affect the determination of the financial position and the cash flows of the Enga Provincial Government in the current year, I was unable to determine whether adjustments to the respective cashbooks and the financial positions, might have been necessary for the year ended 31 December 2015;
- The underlying records such as cashbook, ledgers and the bank statements pertaining to the operations of Other Account reported with a balance of K500,662 were not provided for my examination;
- Reconciling items of revenue and expenditure identified through the monthly bank reconciliation for the provincial operating and grants accounts are not promptly cleared resulting to the accumulation of long outstanding items reported in the monthly bank reconciliation statements.

Receipts and Payments

The Enga Provincial Government reported its total revenue and expenditure as K107, 593,994 and K118, 033,099 respectively with an operating deficit of K10, 439,104. I am unable to verify the accuracy of the receipts and payments in statements 'B', 'J' and 'K' due to;

- The revenue and expenditure component of the Staffing and Teaching Services grants of K24,153,000 reported in Statements 'J' and 'K' respectively differ from the amount of K89,238,000 reported in the revenue and expenditure ledgers. I was not provided with the documents and necessary explanations for the discrepancies consequently, I was not able to verify the accuracy of the total Staffing and Teaching Services Grants reported; and
- Substantial reconciling items pertaining to revenue and expenditure were not adjusted in the cash books, respective ledgers and the subsequent Statements 'B', 'J' and 'K'.

Investments

Financial Statements 'E' and 'F' did not disclose any investments held by the Provincial Government as at 31 December, 2015. However, the Enga Provincial Government had majority share holdings with Wapenamanda Coffee Factory (51%), Enga Pyrethrum Company (100%), Kandep wheat factory (100%), Enga Children's Trust Fund Limited (100%) and Miok Air (100%). Records relating to investments of the Provincial Government were not provided for my examination and as such I was unable to confirm and verify the total value of investments of the Provincial Government as at 31 December, 2015.

Assets

Appendix 4 did not show a complete report on the assets of the Provincial Government at 31 December 2015. Documents sighted during audit confirm that the Provincial Government over the last five years since 2012 had been working on an action plan to consolidate a standard fixed assets and inventory register as well as design policies and procedures for proper management of these assets.

Losses and Deficiencies

Appendix 5 reported losses and deficiencies of K366, 665 as at year ended 31 December, 2015. However, note 16 of the notes to and forming part of the financial statements showed a balance of K64, 521 resulting in a variance of K302,144. I was not provided with necessary documentations and explanations of the discrepancy. Consequently, I was unable to confirm the accuracy of the balances reported as at year end.

Advances

Appendix 6 disclosed un-acquitted advances of K25, 662,890 as at 31 December, 2015. There was weakness in the internal controls over the management of advances, arising from inadequacy on the maintenance of the advance register which were not updated on a regular bases, incompleteness in recording of details in reference to advances paid, failure to adhere to acquittal procedures and imposing of penalties on advance defaulters. Consequently, I was not able to ensure the accuracy and completeness of the total un-acquitted advances as at year end.

Significant Control Weaknesses

There was control weaknesses identified in the Provincial Government's accounting records and processes as follows:

- Segregation of duties was not implemented in regard to the collection and banking of public moneys. I noted that only one (1) Cashier was performing overlapping tasks without any supervision. The independent duties performed concurrently include collection and receipting, compiling collector statements, recording and banking;
- The required accounting records such as FF3 Register, Claims Register, Quotation Register, Consolidated Assets & Inventories Register and Investment Register were not maintained.
- There was lack of adequate controls over 2015 expenditure appropriation which resulted to large amount of expenses on motor vehicle purchases and private hires and increasing associated costs on fuel and maintenance, excessive expenditure on cash advances without proper acquittals, unnecessary expenditure on financial assistances to other government agencies who receive full funding from the National Government, and lump-sum payments lacking supporting documents.
- Control over advance management was inadequate where officers being paid advances while previous advances remained un-acquitted and cash advances being solely handled by the paying officer posing high risk for abuse and misuse of these funds; and
- Employee personal files were not properly maintained and personal details not updated on a timely basis. Salary history cards were either missing or not updated and fortnightly payroll reconciliations were not done due to lack of payroll records. In addition leave register was not maintained including personal documents such as birth and marriage certificates to prove genuineness of legal dependents claimed for recreational leave entitlements.

Disclaimer Audit Opinion

Because of the significance of the matters described under the basis of a disclaimer opinion above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of the Enga Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- The Enga Provincial Government did not maintain proper records and accounts and has consequently breached Section 68(1) of the *Public Finances (Management) Act, 1995*; and
- The receipts and payments and investments of moneys and the acquisition and disposal of assets during the period covered by the Financial Statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local Level Governments*. ”

6.6.2.3 Management Response

Management had not responded to the matters raised in my Audit Management Letter for 2015. Consequently, I am unable to determine if there were any improvements at the time of preparing this Report in September, 2017.

6.6.2.4 Status of Financial Statements

At the time of preparing this Report, the financial statements for Enga Provincial Government for the year ended 31 December 2016 has been submitted and field audits were scheduled to commence shortly when funding becomes available.

6.6.3 Wabag Urban Local-level Government

6.6.3.1 Status of Financial Statements

At the time of preparing this Report, the Wabag Urban Local-Level Government had submitted its financial statements for the years ended 31 December 2013, 2014, and 2015 for my inspection and audit. The fieldwork associated with the examination of the financial statements and the audit of the accounts and records for the three (3) years could not be conducted due to financial constraints faced by my Office.

The financial statement for the year ended 31 December, 2016 was not submitted for my inspection and audit.

6.6.4 Wabag General Hospital

6.6.4.1 Status of Financial Statements

At the time of preparing this Report, the Wabag General Hospital had submitted its financial statements for the year ended 31 December, 2015 for my inspection and audit and field audits will commence shortly when funding become available.

atement for the year ended 31 December, 2016 was not submitted for my inspection and audit.

6.6.5 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local-level Governments Business Arms and other establishments. The Enga Provincial Government has a number of business arms as reported below.

6.6.5A Enga Children's Trust Fund

The Enga Children's Fund Trustee Limited was established by a Deed of Trust in 1997 between 'The Enga Provincial Government' and 'Pogera Mine Equity Holdings Pty Ltd'.

6.6.5A.1 The Functions of the Fund Trustee

The principle activities of the company were to manage the trust funds in accordance with the Trust Deed executed between the company and the Enga Provincial Government for the funds received from MRDC Ltd under the Deed of Redemption of Option. The main function of the Trustee was, among other things to invest in real estate in Port Moresby, PNG and elsewhere with realized returns that will benefit the people of Enga.

6.6.5A.2 Financial Statements

The Enga Children's Fund Trustee had submitted its financial statements for the year ended 31 December 2015 for my inspection and audit. The fieldwork associated with the inspection of the accounts and records and the examination of the financial statements had been completed and Management Letters issued.

My report to the Ministers and other relevant bodies under the *Company's Act* and the *Audit Act* were issued on 29th March 2017. The report did not contain any qualification.

6.6.5A.3 Status of Financial Statements

The Enga Children Fund has submitted its financial statements for the year ended 31 December 2016 for my inspection and audit. Fieldwork associated with the audit of accounts and records and the examination of the financial statements was in progress at the time of preparing this Report in September 2017.

6.6.5B Enga Rural Investments (Holdings) Ltd and its Subsidiaries

The Enga Provincial Government incorporated Enga Rural Investments (Holdings) Ltd (ERIHL) and its Subsidiaries (Wapenamanda Coffee Factory, Enga Pyrethrum Company and Kandep Wheat Factory) purposely to invest and develop major agricultural development projects aimed at economically empowering the lives of simple people in the province. The three (3) subsidiary companies are cash crop companies managed by ERIHL.

6.6.5B.1 Status of Financial Statements

At the time of preparing this Report, the financial statements for these companies for the years since their establishments have not been submitted for my inspection and audit.

6.6.6A Pogera District Development Authority

The Pogera LLG Special Purpose Authority (PLLGSPA) was established by proclamation under the *Local Level Government Administration Act 1997*. The PLLGSPA is the successor to the Pogera Development Authority established by the *Pogera Development Authority Act 1989* of the Enga Provincial Government.

6.6.6A.1 The Functions of the Authority

The functions of the Authority generally are to provide special mining and government services including municipal services and other essentials in the Pogera mine area.

6.6.6A.2 Status of Financial Statement

The Pogera Development Authority had not submitted its financial statements for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 for my inspection and audit despite numerous reminders from my Office.

6.7 FLY RIVER (WESTERN) PROVINCE

6.7.1 Introduction

The Fly River Provincial Government, Daru and Kiunga Urban Local-level Governments and Daru General Hospital are audited annually with or without the financial statements. The annual audits of other Local-level Governments and the Business Arms of the Provincial Government could not be audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Local-level Governments and Business Arms.

6.7.2 Fly River Provincial Government

The Fly River Provincial Government had not submitted its financial statements for the years ended 31 December, 2014, 2015 and 2016 for my inspection and audit. However, the field work associated with audit of the internal control environment for the two former years had been completed and the Management Letters were issued.

6.7.2.1 Control Environment – 2015

The Management Letters relating to the audit of the accounts and records for the years ended 31 December, 2014 and 2015 were issued in February, 2017. The Management Letters contained similar issues hence, only significant control weaknesses in the 2015 Management Letter are reproduced as follows:

Budgetary Control

Examination of the Budgetary Controls exercised by the Fly River Provincial Government during the financial year 2015 revealed the following issues:

- Journal entry No; 64/2015 was passed to indicate a transfer of K3,000,000 PSIP Funds from the Provincial Treasury Operating Account to the Provincial Government Operating Account and expended. This transfer was in breach of the Appropriation Act 2015 where all PSIP funds are to be captured under National Government Grants:

Documentary evidence was not provided nor sighted to indicate a formal approval by the Secretary-Department of Finance nor the Provincial Budgetary Committee as well as the Provincial Executive Committee or the Provincial Assembly for transfer of PSIP funds. The similar observations had been reported in the previous years;

- Total warrant authorities as at 17th August 2015 was stated as K4,097,500 comprised of current authority of K591,500 and previous authority of K3,506,000. The total warrant authorities received from Department of Finance for national grants and the cash fund certificate issued by the Provincial Government could not be confirmed. An amount of K3,506,000 could not be verified against the warrants issued as not all warrants were provided as a result of a poor filing system; and
- Evidence of budget quarterly reviews had not been provided for audit examination.

Cash Book & Bank Balance

The Fly River Provincial Government maintained two bank accounts namely, the Fly River Provincial Government Operating Account and Fly River Provincial Grant Account with two separate cash books to conduct its financial transactions for Internal Revenues and Grant Revenues respectively. Audit of the bank accounts together with related records revealed the following matters:

Fly River Provincial Government Operation Account: 1000943315

The year-end bank reconciliations showed favorable closing bank and cash book balances of K1,743,153 and K2,379,252 respectively. The review of the bank reconciliation statements, bank statements and the PGAS cash book however, revealed the following concerns:

- The bank reconciliation for the month ending December 2015 had shown that the closing bank and cash book balance of K1,743,153 and K2,379,252 respectively, remained un-reconciled; and
- Significant reconcilable items that were sighted in supporting schedules of the bank reconciliations had continued to significantly distort the actual cash book and fund balances. These items had not been identified and corrected in accordance with Financial Instruction 5/2006 issued dated 30th November 2006.

Fly River Provincial Government Grant Account: 1001680784

The year-end bank reconciliations had shown favorable closing bank and cash book balances of K7, 154,260 and K1, 357,862 respectively. The review of the bank reconciliation statements, bank statements and PGAS cash book however, revealed the following concerns:

- The bank reconciliation had shown that the year-end closing bank and cash book balance of K7, 154,260 and K1,357,862 respectively remained un-reconciled; and
- Significant reconcilable items that were sighted in supporting schedules of 6, 8 & 11 of the bank reconciliation statement for December 2015 had been outstanding for years dating back to 2011 which could have significantly distorted the actual cash book and fund balances. These items had not been identified and corrected in accordance with Financial Instruction 5/2006 issued dated 30th November 2006.

Revenue Management

The audit review of the collection and banking procedures revealed the following weaknesses:

- Significant under collection of revenues in the areas of Mining Royalties, Dividends (MROT2) and 10% Equity. Total estimated for the year was K22,446,700 while actual collected was K5, 538,141 resulting in a variance of K16,908,558. The under-collection implies unrealistic budget estimates which could adversely impact expenditure plans;

- Cash receipting/collection and banking procedures revealed no major irregularities. However, the appointment of cash officer, who is the spouse of the Provincial Treasurer may amount to a conflict of interest and a breach of the Public Service Management Act; and
- The Provincial Liquor Office had been poorly equipped with of financial resources and man-power to effectively perform their roles and responsibilities of monitoring and surveillance of existing liquor outlets. However, despite the handicap, the office managed to generate well over K200, 000 annually. There was a very poor filing system which proved access to the records difficult and time consuming.

Payment of Accounts & Procurement Management

Tests of sample payments for accuracy and completeness of payments and procurement processes revealed the following control weaknesses:

- Payment vouchers not adequately maintained resulting in audit un-able to locate or have the documents provided in account of twenty seven sampled payments totaling K537,526 except for the cheque usage report;
- A verbal quotation register was not maintained at the time of the audit to state the reason, for only one quotation or no quotations for goods and services purchased.
- Nine payments totaling K192,995 that were not committed, certified and lacked three valid quote attachments prior to processing of the payment; and
- Record of financial delegates, specimen signatures and authorized requisition officers were not updated annually.

Provincial Supply & Tenders Board

The review of the Fly River Provincial Government Procurement Procedures revealed the following weaknesses:

- The Instruments establishing the appointment of Provincial Supply and Tender Board (PSTB) Board members, Signed Meeting Minutes, Register for tenders invited and certificate of inexpedience issued were not available nor provided for audit review; and
- The tender box was unsuitable for the purpose, not placed in a secured location, not secured by dual lock operation and no separate custody of keys. Also, small project tenders or urgent tenders are not received sealed.

Capital Works & Maintenance

The review of the records and details of the sampled forty-four (44) payments totaling K5,334,149 during the year under review revealed the following weaknesses:

- Finance Form 3 (FF3) for all payments tested, were not signed by the commitment clerk and authorized PSTB approval attached prior to payments;
- Reports, records or information on monitoring and reporting of project management by the Technical Services Division were not available nor provided for audit review at the time of the audit in June, 2016;
- Payment vouchers relating to payments totaling K532,611 were missing; and
- Eleven payments totaling K2,005,874 to construction companies who had no evidence of valid Certificate of Registration (COR) and Certificate of Compliance (COC) from Investment Promotion Authority (IPA) and Internal Revenue Commission (IRC) respectively.

Grants & Subsidies

Audit review of the Grants and Subsidy expenditure ledgers (*National and Provincial accounts*) revealed that the Fly River Provincial Government had expended over K2,517,317 during the year as grants and subsidies to various organizations including the Districts. Audit noted however those policy guidelines for proper and effective management of grants and lump-sum payments disbursed to various agencies for state funded projects were lacking. Consequently, acquittals and disbursement reports/statements from respective recipients were not provided to the Provincial Administration and no follow up actions taken for accountability purposes.

Assets Management

A review of the existing systems and procedures relating to the assets management revealed the following weaknesses:

- The Fly River Provincial Government did not maintain a proper Assets Register during the year under review and prior years. Further, no Central Asset Register maintained to record details of purchases and/or disposal of assets during the year and prior years. Divisional Managers were also responsible for maintaining individual Asset Registers for the Divisions. Interviews and enquiries conducted with management revealed that no such assets registers had been maintained over the years. Consequently, purchases during the year totaling well over K335,124 could not be verified as correctly recorded in the Assets Register. The Provincial Government spends millions of kina purchasing assets every year and the absence of proper records indicates that, there is high risk of the assets being abused and misused;
- No periodic stock take and Board of Surveys of assets had been conducted during the year under review and prior years to ensure all assets of the Provincial Government are in existence and in usable conditions; and
- The title documents for the properties were not provided for audit review although requested. Consequently, audit was unable to verify the total number of properties under the custody of Fly River Provincial Administration.

Advances Management

The Fly River Provincial Government had in place advance registers for both travelling and cash advances except for the following weaknesses:

- Payments for travel and cash advances (as per the ledgers from the Provincial Grant Account - K856,120 and Provincial Operating Account - K1,383,502) during the year totaling K2,239,622 had remained un-acquitted at the time when this audit was done in May/June, 2016. Audit sighted no evidence to indicate that there had been any acquittal or recovery efforts taken; and
- Payment of excessive cash advances ranging from K20,000 to K85,500 amounting to K736,720 were noted which had not been acquitted as stated above. This indicated the lack of stringent cash management practices exercised by the management.

Salaries, Wages & Allowances

Review of the sampled personnel files, payrolls and other related records revealed the following issues:

- An updated Establishment Register (2015) was not provided to audit to obtain the names of the employees for the year 2015. Audit was informed however, that all position holders currently under the new structure remained un-attached as the recruitment and appointment process was still pending;
- Fortnightly payroll reconciliation was not done for the twenty-six (26) fortnights for the year under review;
- Income Tax payable on casual employees' wages was not deducted and remitted to Internal Revenue Commission (IRC) which was in breach of IRC Tax Regulations;
- Personal files on contract officers were generally not adequately maintained or were missing and hence, were not available for audit review;
- A total of 226 casual staff were on the PGAS Payroll and paid from Fly River Provincial Operating Account amounting to K4,067,323 through Kundu Pay with the Bank South Pacific Bank (BSP). As noted in the previous years, audit could not confirm validity and legitimacy of their employment in the absence of a complete and reliable Casual Employees Listing, and that only 78 of the total casuals had their files maintained in some form. As a result it is likely that there are ghost names on the PGAS Payroll; and
- Provincial Treasury casual staff was noted to have been paid from the 700 Series PGAS Payroll rather than from the Provincial Treasury Operating Account. Records or correspondences in relation to this salary payment arrangement for number of payees were not sighted.

Trust Accounts

The Fly River Provincial Government operated a total of five Trust Accounts without bank accounts. The respective Trust Ledgers were operated through the PGAS system as Clearing Accounts through the Provincial Government Operating and Grant bank Account respectively with related system cash book.

Two of the five Trust Accounts namely, the FRPG Trust Clearing Account & FRPG Operating Clearing account had opening and closing balances with transactions during the year while the other three namely, North Fly District, Cashbook 500 and Cashbook 501 had same opening and closing balances which remained dormant during the year as these were closed in 2002.

Corporate Governance

- The Provincial Assembly and PEC meeting minutes were not provided despite the request. Consequently, unable to confirm whether the Provincial Government had convened the required minimum number of sittings during the year nor could ascertain decisions and resolutions passed, if any;
- The Corporate Plan provides strategies, causes of actions to be taken, monitoring and evaluation processes required to measure outcomes with appropriate associated plans developed to amplify or articulate the action plan for clear understanding and implementation;
- The Fly River Provincial Government had in place a Five-Year Corporate Plan (2011 – 2015) and a Five - Year Development Plan (2013-2017). The Corporate Plan had eight (8) Key Result Areas (KRAs) namely, Internal Management, Coordination and Direction (KRA 1); Mobilization of Support Services in Decision Making Processes (KRA 2); Finance, Budget Management and Implementation (KRA 3); Effective Human Resources Management and Training (KRA 4); Physical Assets Management (KRA 5); Performance Management & Technical Information Management System (KRA 6); Local Level Government Support (KRA 7); and Cross Cutting Issues (Gender, HIV/Aids, Disaster and Emergency (KRA 8). Audit noted that most of these KRAs had not been implemented as highlighted below:

KRA 1: No monitoring and evaluation team established to ensure the KRA were achieved;

KRA 3: No realistic internal revenue estimate as well as lack of proper recoding and updating of the internal and national revenue heads in the system; no proper supporting or source documents of the revenue received;

KRA5: No assets register for the FRPG or the records of assets;

- The Internal Audit Unit is handicapped by limitation of required resources including sufficient manpower and appropriate logistical and budget support.

- The Internal Audit Unit had no Annual Audit Work Plans for the year under review nor did it undertake any internal audits during the year hence, no audit reports could be provided; and
- The Fly River Provincial Government is yet to establish an Audit Committee as required by *Section 9 of the Public Finance Management Act, 1995 (as amended)*.

Journal Entries

- Twenty-four Journal Entries totaling K502,588 were however, could not be verified as they were not properly filed or held in file; and
- A Journal Entry relating to a canceled cheque valued at K500,000 had no evidence of the cheque. The Accountant advised that the actual canceled cheque was withheld by the Bank for unknown reason was pending.

6.7.2.2 Management Response

The audit observations on the internal control weaknesses for the years 2014 and 2015 had been communicated by way of a Management Letters to the Provincial Administrator and management together with recommendations for improvements. I have however, not received the responses to the Management Letters as at the time of preparing this Report in August 2017.

6.7.2.3 Status of Financial Statements

At the time of preparation of this Report in August, 2017, the Fly River Provincial Government had not submitted its financial statements for the financial year ended 31 December, 2016 for my inspection and audit.

6.7.3 Daru Urban Local-level Government

The Daru Urban Local-level Government had submitted its financial statements for the years ended 31 December 2014 and 2015 for my inspection and audit. Field work associated with examination of the financial statements and audit of the accounts and records was completed with both the Management Letters and Audit Opinion Reports issued. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.7.3.1 Comments on Financial Statements - 2015

My reports to the Ministers concerned and other relevant bodies under the *Organic Law and Audit Act* on the Daru Urban Local-Level Government's financial statements for the years ended 31 December, 2014 and 2015 were issued on 21st and 28th June, 2017 respectively. The Reports contained similar Disclaimer Audit Opinions hence, only the 2015 report is reproduced as follows:

Basis for Disclaimer Audit Opinion**Disclosure Errors**Cash Balances

The Daru Urban Local Level Government Fund Balance of K814,354 is inaccurate due to omission of the 2014 Carried Forward Fund Balance of K122,475 and Net Operating Surplus for the year of K489,122 which were not included in the calculation of the total revenue fund balance in Note 3 to the accounts. Also my comments on significant discrepancies noted on the monthly bank reconciliation and inherited errors on the prior years carried forward fund balance not corrected in the current year's books of account which are of material value which would have impacted the accuracy and completeness of the cash balances reported in the financial statements.

Receipts and Payments

Statement 'B' presented total revenue and expenditure as K910,370 and K421,158 respectively with an operating surplus of K489,212. The operating surplus was unreliable due to understatement of the total expenditure by K295,515 as confirmed by the ledger accounts and that necessary and complete records were not maintained to confirm if all internal revenues had been accounted for.

Other Disclosures

Accuracy of Nil balance disclosures of other statements relating to, trust accounts, investments, lending and borrowings, as well as appendices relating to commitments & arrears, debtors & receivables, assets & inventories, losses & deficiencies and cash advances could not be confirmed as accurate and reliable in the absence of related records and registers.

Significant Control Weaknesses

There was significant control weaknesses identified in the Daru Urban Local Level Government's records and processes as follows:

- The Daru Urban Local Level Government annual budget estimates for the year was K3,106,170, an increase of K422,370 from the previous year's budget of K2,683,800. I was not provided with sufficient information and records to indicate that quarterly budget reviews and revisions were done and that the budget was implemented according to the approved appropriations. I also noted numerous instances of payments charged to inappropriate expenditure vote items defeating the purpose of budgetary control practices;
- No proper revenue registers were maintained to keep track of all revenue collections. As a result market fees collected were often used without proper accounting documentation;
- I could not verify the genuineness and legality of payment totaling K93,497 in the absence of payment vouchers. I also noted significant lapses in the procurement procedures which included payments totaling K34,747 processed and paid without

being certified by the Certifying Officer and casual laborers payments totaling K26,500 could not be confirmed as received due to unavailability of Finance Form10;

- As previously mentioned in my 2013 and 2014 Audit Reports, Daru Urban Local Level Government had not maintained a comprehensive fixed asset register nor conducted any physical stock-take of its assets. Consequently, I am unable to establish the total value of assets owned and in the custody of the ULLG as at 31 December, 2015;
- The Urban Local Level Government had advances totalling K28,870 remained un-acquitted as at time of the audit in October, 2016 ;
- Journalized entries valuing K1,419, 895 were never documented nor filed after being systematically recorded on the PGAS;
- During my audit of the 2013 accounts in September 2014 I was advised that the Planning Division of the Provincial Administration had undertaken the task of compiling a Corporate Plan or a Five (5) year Development Plan for LLGs in South Fly District. However, at the time of the completion of the 2015 audit in October 2016, no such documents had been provided for my review; and
- The Fly River Provincial Government is responsible for the internal audit of the Daru ULLG. However, no internal audits were done on the accounts of the Urban LLG.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the Financial Statements of Daru Urban Local-level Government for the year ended 31 December, 2015.

Other Matters

In accordance with the Audit Act, I have a duty to report on significant matters arising out of the Financial Statements, to which the report relates. The following are matters of significance:

- Daru Urban Local Level Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act 1995*; and
- The receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the Financial Statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local Level Governments*”.

6.7.3.2 Status of Financial Statements

The Daru Urban Local-level Government had not submitted its financial statements for the financial year ended 31 December 2016 for my inspection and audit at the time of preparation of this report in August, 2017. The field work associated with audit of the internal control environment however, could not be conducted due to financial and manpower constraints faced by my Office.

6.7.4 Kiunga Urban Local-level Government

6.7.4.1 Status of Financial Statements

The Kiunga Urban Local-level Government had not submitted its financial statements for the financial years ended 31 December 2014, 2015 and 2016 for my inspection and audit at the time of preparation of this report in August, 2017. The field work associated with audit of the internal control environment for the three years however, could not be conducted due to financial and manpower constraints faced by my Office.

6.7.5 Daru General Hospital Board

The Daru General Hospital Board had submitted its financial statements for the years ended 31 December, 2014, 2015 and 2016 for my review and audit. Field work associated with examination of the financial statements and audit of the accounts and records was completed with both the Management Letters and Audit Opinion Reports issued. The report for the financial year 2014 was disclaimed whilst 2015 and 2016 reports were qualified due to various improvements in disclosures in the financial statements as well as other internal control procedures. The paragraphs below detail issues identified with the financial statements and the internal control environment for the respective years.

6.7.5.1 Comments on Financial Statements - 2014

My report for the year ended 31 December, 2014 to the Minister concerned and other relevant bodies under the *Audit Act* and the *Organic Law* was issued on 1st of May, 2017. The report contained a Disclaimer Audit Opinion as reproduced below:

“Basis for Disclaimer Audit Opinion

Disclosure Errors

I noted the following disclosure errors have material effect on the accuracy and completeness of the account balances, the financial position and consequently, the reliability of the financial statements of Daru General Hospital as at 31 December, 2014:

- The accuracy and completeness of the reported value of fixed assets as per the Schedule of Assets totaling K1,258,848 could not be confirmed to the register as proper and adequate records for all assets were not maintained nor available for audit inspection.

- The accuracy of the Accumulated Fund balance of K4, 796,948 comprised of the Operating Account of K312, 531 and Fees Trust Account of K4,484,417 could not be confirmed in the absence of related bank reconciliations.

Significant Control Weaknesses

The paragraphs below give a summary of significant control weaknesses identified in the Daru General Hospital internal control environment:

Revenue

Except for instances of minor delays in banking of patient fees, controls relating to revenue management were noted to be sound and effective as evidenced by correct receipting of National Government Grants through CFCs and direct bank transfers from the National Department of Health and posting of the same in the cash books.

Budgetary Control

- Proper accounting for government grants and hospital fees and the formulation of annual budget estimates of revenues and expenditures were lacking. Management failed in its responsibility to formulate estimates of revenues and expenditures of the Hospital for the year under review as required by the Public Finance (Management) Act, 1995;
- Annual budget submission with the Appropriations and the quarterly budget reviews for 2014, if any, were not provided for my review at the time of the audit; and
- The Salary & Allowances were budgeted at K5,639,300 and paid through the Department of Finance against the actual expenditure of K744,754. I was not provided nor sighted copy of the payroll reconciliations confirming actual expenditure on salaries and allowances for the year.

Paid Accounts

- Ten instances of payments for routine maintenance totalling K729,966 lacked supporting documents including maintenance request forms and delivery dockets and proper receipts to confirm that all materials bought had been received intact;
- Payments incurred under “other operating expenditure” totalling K150,489 were not approved by a Section 32 Officer. Further, segregation of duties in respect of payments amounting to K528,070 was not exercised;
- The Hospital had reported its expenditure on trainings as K42,886. The accuracy and appropriateness of these expenditures however, could not be ascertained in the absence of any documented and duly approved appropriate Training Plans;
- I noted a very poor and ineffective filing system at the Hospital during the year resulting in over 50% of the sampled paid vouchers either missing or not filed at the time of the audit; and

- Payments of recreation leave fares totalling K118,750 were not supported with birth certificates and/or concessions for legal dependents and students under 18 years.

Salaries & Wages

- Variations in salaries & wages for some permanent employees could not be verified in the absence of valid documents including permanent and temporary variations forms and advices, performance appraisals reports, over time forms etc.,... for confirmation;
- Employee records including salary history cards, recreational and other leave records, HDA, compassionate leave and sick leave records were not properly maintained and updated;
- Fortnightly payroll reconciliations were not done to verify the accuracy of the payrolls;
- Payment vouchers and Kundu Pay reports on casual wages totalling K76,613 were not available for audit review; and
- Overtime payments totalling K86,357 were made without prior approval by the Divisional Heads.

Asset Management

The Daru General Hospital owned extensive portfolios of fixed assets including land and residential buildings, vehicles and various biomedical and static equipment, furniture, office equipment and white goods. The Hospital did maintain an asset register however, lacked proper and timely update of asset details including models/serial numbers, additions and disposals, and physical locations of assets. Further, I sighted no evidence to indicate that periodic stock takes of the assets were conducted to ensure existence and condition of assets.

Advance Management

Noted general breakdown in management of travel and cash advances during the year resulting in an un-acquitted balance of K233,518 at year end.

Cash & Bank Balances

The Hospital Board had ceased the fees trust account and operated only one (operating) account for both the fees and the operational account transactions with a single cash book since 2007 following the Ministerial Directive due to maladministration and abuses of the account in the prior years and reopened only in August, 2014 as reported in the past. However, proper reconciliations of cash book and bank account for the year under review were not done to reflect accurate account balances at year end.

Corporate Governance

- As reported in the past, the Daru General Hospital did not have a Corporate Plan at the time of the audit in October 2016 with related long term objectives, set priorities and targets as well as associated plans incorporating patient care through financial, asset management, human resource, information technology, risk management and divisional operating plans,
- The Hospital had no formal Board in place in 2014 due to the expiry of the terms of its members. I was advised that as a result, no formal meetings were convened during the year. The absence of a formal appointment of Hospital Board had been reported since 2009 audit however, nothing seems to have been done since. I am of the view therefore, that in the absence of any formal Board in place, and therefore, its Meetings, any major financial decisions that may have been undertaken during the year could be deemed inappropriate and illegal. Further, the expenditure records had however, revealed that stipends and allowances totalling K45,159 were paid to certain individuals. Validity of these payments could not be confirmed in the absence of any formal meeting minutes or other evidence to indicate attendance of members; and
- The National Department of Health is responsible for the internal audit of the Hospital. However, I did not sight nor was provided evidence to suggest that such audit was conducted during the year 2014 to ensure that the control mechanisms instituted were operational and effective.

The Management had responded in detail and noted fully my audit queries advising that certain remedial actions have been taken or are being taken to improve on the issues highlighted and will continue to put in place measures for further improvements.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I am not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of Daru General Hospital for the year ended 31 December, 2014.

Other Matters

In accordance with the Audit Act, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- Section 62 (1) of the *Public Finance (Management) Act, 1995* requires all public bodies to keep proper accounts and records of their transactions and affairs, and to develop adequate controls over their assets and liabilities. As discussed in the Basis for Disclaimer Opinion paragraphs above, the Daru General Hospital had not complied with this requirement during the 2014 financial year.

- The financial statements for Daru General Hospital was not prepared and submitted to the Minister and the Auditor General prior to 30 June for the year ending 31 December preceding, resulting in breaches of Section 63(2) and (4) of the *Public Finance (Management) Act, 1995*. The signed financial statements for the year ended 31 December, 2014 were submitted for my review in October, 2015.”

6.7.5.2 Comments on Financial Statements - 2016

My reports for the years ended 31 December, 2015 and 2016 to the Ministers concerned and other relevant bodies under the *Audit Act* and the *Organic Law* were issued on 26th June and 14th July, 2017 respectively. The reports contained similar Qualified Audit Opinions hence, only the 2016 report is reproduced as follows:

Basis for Qualified Audit Opinion

Presentation

Finance Instruction 2/2004 issued under *Section 117 of the Public Finances (Management) Act 1995* states the prescribed format for the preparation and presentation of the financial statements for Public Bodies. The 2016 financial statements for Daru General Hospital had fully complied with the Finance Instruction.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the account balances, the financial position and consequently, the reliability of the financial statements of Daru General Hospital as at 31 December, 2016:

- The source records relating to adjustments of K109,815 and K2,439,466 used in the calculation of the Operating and Trust accounts year-end cash balances of K812,032 and K3,271,962 respectively were not provided for my verification and confirmation.

I also noted that the bank reconciliation statement compiled for the Operating account for the month of December, 2016 revealed significant amounts of revenue and expenditure items totalling K2,153,802 and K2,193,108 respectively that remained uncleared at year end. The outstanding reconciling items are of material value that will affect the accuracy and completeness of the cash balances reported in the financial statements;

- The accuracy and completeness of the reported value of fixed assets as per the Schedule of Assets in Note 4 of the Financial Statement totaling K1,224,334 could not be confirmed to the register as proper and adequate records for all assets were not maintained nor available for audit inspection; and
- Transactions of the hospital accounts are maintained through manual spread sheet and as such are prone to high risk of data manipulation and inaccurate disclosures.

Significant Control Weaknesses

The paragraphs below give a summary of significant control weaknesses identified in the Daru General Hospital internal control environment:

Budgetary Control

- Proper accounting for government grants and hospital fees collections was lacking. Management failed in its responsibility to formulate estimates of revenues and expenditures of the Hospital Fees Trust Account for the year under review;
- Appropriation of K6,799,000 comprised of salary & allowances were budgeted and paid through Department of Finance, however no reconciliation or payroll audits were done to confirm actual revenue and expenditure component of salary and allowances for the year; and
- Quarterly budget reviews and revision relating to appropriations for both the operating and trust accounts were not made available for my review at the time of audit.

Paid Accounts

- Nine instances of payments for routine maintenance totalling K66,828 lacked supporting documents including maintenance request forms and delivery dockets and proper receipts to confirm that all materials bought had been received intact;
- Recreation leave fares payments totaling K151,837 lacked appropriate supporting documents such as birth certificates and/or concessions for dependents under 18 years to validate the number and age of dependents claimed; and
- Audit noted that payments totalling K571, 614 made for supplies and consumables were made without obtaining three quotations.

Advance Management

Noted general breakdown in the management of travel and cash advances during the year resulting in an un-acquitted balance of K396,233 at year end.

Assets Management

The assets register was not properly maintained and as such failed to provide detailed information such as model/serial number, condition and locations of assets. The Hospital owned extensive portfolios of fixed assets including land and residential buildings, vehicles and various biomedical and static equipment; furniture, office equipment and white goods. However, there were no evidences to indicate that Hospital had conducted periodic stock take of its assets to ensure existence of its fixed assets, are in usable condition, and to provide management with reliable information so that decisions regarding replacements and disposals can be made and catered for in the annual budgets.

Cash Book & Bank Accounts

- The Hospital Board had ceased operation of the fees trust account since 2007 following the Ministerial Directive due to then maladministration and abuses of the account and operated only one (operating) account for both the fees and the operational account transactions with a single cash book up to August 2014 when the fees trust account was reopened. However, I did not sight a copy of the trust instrument at the time of the audit; and
- Bank Reconciliations were done on a monthly basis for both operating and trust accounts. However, the same were not reviewed, checked and signed by the responsible person(s).

The Management had responded in detail and noted fully my audit queries advising that certain remedial actions have been taken or are being taken to improve on the issues highlighted and will continue to put in place measures for further improvements.

Qualified Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the financial statements of Daru General Hospital (DGH) for the year ended 31 December, 2016:

- give a true and fair view of the financial operations during the year and its financial position for the year then ended; and
- the financial statements have been prepared and presented generally in accordance with Finance Instruction 2/2004 issued under Section 117 of the Public Finances (Management) Act 1995.”

6.7.6 Business Arms

Section 16 (2) (f) of the *Audit Act 1989* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-Level Government Business Arms and other establishments.

I am not nor made aware of the existence of any business arms of the Fly River Provincial Government at the time of preparing this Report in August, 2017. Consequently, I am unable to comment on the operations and financial results of the business arms of the Provincial Government, if any.

6.8 GULF PROVINCE

6.8.1 Introduction

The Gulf Provincial Government, Kerema Urban Local-level Government and Kerema General Hospital are audited every year, with or without financial statements. Other Local-level Governments (LLGs) and the Business Arms of the Provincial Government were not audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Governments and Business Arms.

6.8.2 Gulf Provincial Government

The financial statements for the year ended 31 December, 2015 were submitted for my inspection in June 2017. However, I was unable to conduct the field audit due to the constraints mentioned above. I will report the results of this audit in my 2017 Part 3 Report.

6.8.2.1 Status of Financial Statements

At the time of preparing this Report in September, 2017, the Gulf Provincial Government had not submitted its financial statements for the year ended 31 December, 2016 for my inspection and audit.

6.8.3 Kerema Urban Local-level Government

6.8.3.1 Status of Financial Statements

As reported in my 2015 Part 3 Report, the Kerema Urban Local-level Government had not submitted its financial statements for the years ended 31 December, 2012, 2013, 2014 and 2015 for my inspection and audit. However, in June 2017, draft financial statements were submitted to my Office after enquired by the Gulf Provincial Governments Audit Committee in May, 2017 to furnish the respective financial statements for their inspection and audit. I will commence the respective audits soon after these statements are endorsed by management.

6.8.4 Kerema General Hospital

The Kerema General Hospital had submitted its financial statements for the years ended 31 December, 2012 and 2013 for my inspection and audit. Field work associated with the audit of accounts and records and examination of the 2012 and 2013 financial statements had been completed and Disclaimer Audit Opinions were issued to the Ministers concern. The issues identified with the financial statements and the control environments are reproduced as follows:

6.8.4.1 Comments on the Financial Statements 2012 - 2013

My reports on the Kerema General Hospital for the years ended 31 December, 2012 and 2013 to the Ministers concerned and other relevant bodies under the *Audit Act* were

issued in September and March, 2017 respectively. The reports contained Disclaimer Opinions hence; only 2013 is reproduced below:

“Basis for Disclaimer Opinion

Limitation of Scope

Opening Balances

Because of the disclaimer of opinion issued in respect of the year ended *31 December, 2012* and because of other limitations on the scope of my audit as noted below, I was not able to satisfy myself as to the completeness and accuracy of the opening bank balance of K9,497,538. Since these opening balances would affect the determination of the financial position and the cash flows of the Kerema General Hospital in the current year, I was unable to determine whether adjustments to the respective Cashbooks, financial position and the cash flows, might have been necessary for the year ended *31 December, 2013*.

Cash at Bank

The Operating Bank Account was stated as K256,659 in the financial statements for the year ended *31 December, 2013*. However, this disclosure was not properly reconciled with the underlying documents and records as a variance of K32,601 remained reconciled. Consequently, I was unable to verify and confirm the account balance for the year ended *31 December, 2013*.

Fixed Assets

In *Note 4.2* to the financial statements, Fixed Assets acquired during the year total K383,344. However, in the absence of a proper and accurate Fixed Assets Register, the details of these assets, the location and condition and the total Assets kept under the custody and control of the Kerema General Hospital Board was not verified and confirmed. As a result, I am unable to ascertain the correctness and the validity of the status and the disclosure made at year end.

Government Grant

The National Government Grants were disclosed as K7,407,400 in the financial statements for the year ended *31 December, 2013*. However, I was unable to verify and confirm the account balances as supporting documents including copies of Warrant authorities were not provided for my examination.

Receipts

Hospital Service Fees were disclosed as K32,456 under Trust Account in the Funds consolidated statement. However, the relevant records and registers for the collection of the respective hospital fees were not adequately maintained and kept by the Hospital. I observed that the Cash Office and the Accounts Section kept separate un-reconciled records resulting in an un-reconciled variance of K8,702. Further, there were un-reconciled deposits in the Bank Statements totaling K4,554 and K23, 456 from Direct Deposits and Rental Fees respectively.

Consequently, I am unable to verify and confirm whether the receipts under Trust Account, Hospital Fees Account are valid and accurate for the year ended *31 December, 2013*.

Report On Other Legal and Regulatory Requirements

In addition to the scope limitation and deficiencies in the accounts and records noted above, I also wish to report on the breaches of the *Constitution of the Independent State of Papua New Guinea, Organic Law on Provincial Governments and Local-level Governments*, and the *Appropriation Act, 2014 the Public Finances (Management) Act, 1995 (as amended)* and the *Public Service (Management) Act, 1995* and other enabling legislations.

Financial Statement Presentation Errors

Finance Instruction 4/2000 issued under *Section 117* of the *Public Finances (Management) Act, 1995* prescribes the format for the preparation and presentation of the financial statements for General Hospital. The financial statements of Kerema General Hospital for the year ended *31 December, 2013* did not comply with the above *Finance Instruction*.

The Financial statements were unsigned by those charged with governance and further, the Kerema General Hospital financial statements submitted for audit did not contain the updated schedule of Capital Assets and Liabilities, and Statement of Accumulated Funds for the year ended *31 December, 2013*.

Budgetary Control

Budget management records including budget book, warrant authorities and cash fund certificates and other related books of accounts and records were not provided for my examination. Consequently, I was not able to satisfy myself whether there were sufficient controls on the Budget and the reporting guidelines.

Procurement and Payment

There were significant control weaknesses in the Kerema General Hospital's maintenance of the accounting records and processes resulting among others these anomalies:

- Debtors and Creditors Ledgers were not properly recorded and kept during the year ended *31 December, 2013*.
- There were no formal appointments for officers performing the roles and responsibilities of a *Requisition* and a *Section 32* officer rendering duties performed in these capacities invalid.
- Procurements and payments made totaling K352,018 were made without following procedures laid in the *Public Finance (Management) Act, 1995*.

- Two (2) payments totaling K88,330 were made out of the Kerema General Hospital Fees Trust Account did not have supporting documentation.
- Advances totaling K108,434 were paid during the year ended *31 December, 2013*. However, Advance management records including Advance register, Acquittals files and other related documents and records were not provided for my examination.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I am not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of Kerema General Hospital for the year ended *31 December, 2013*.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)*, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

Kerema General Hospital did not maintain proper books of accounts and records to support the financial statements and the disclosures contained therein. Further, the Hospital Board through the hospital management need to improve future financial reporting and its respective accountability statements as required under the *Public Finance (Management) Act, 1995*.”

6.8.4.1 Status of Financial Statements

The Kerema General Hospital had not submitted its financial statements for the years ended 31 December, 2014, 2015 and 2016 for my inspection and audit at the time of preparation of this Report in September, 2017. However, a report on the audit of the internal control environment for 2014 is under preparation and will be reported in my 2017 Part 3 Report.

6.8.5 Business Arms

Section 16 (2) (f) of the Audit Act, 1989 (as amended), provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-level Government Business Arms and other establishments.

I am aware of the following Business Arms and/or the Trust Funds of the Gulf Provincial Government namely, Gulf Economic Development Ltd; Paia Inlet Infrastructure Development Co Ltd (86% shareholding); Gulf Investment Trust Fund and its two Subsidiaries – Gulf Papua Fisheries Ltd and Southern Star Ltd; Vailala Timber Block 1 Trust Fund; and Vailala Timber Block 2 Trust Fund. At the time of preparing this Report in September, 2017, none of these entities had submitted their respective financial statements for my inspection and audit. Consequently, I am unable to comment on the operations and financial results of these entities.

6.9 HELA PROVINCE

6.9.1 Introduction

The Hela Province was created through an Act of Parliament on 14 July, 2009. The Hela Provincial Government, Tari Urban Local-level Government and the Hela Provincial Health Authority will be audited every year, with or without financial statements. However, the province had not established a functioning Urban Local-level Government during the year ended 31 December, 2015. The Hela Provincial Health Authority was established in 2014 by the NEC after the Tari District was declared a Provincial Hospital in October, 2014.

6.9.2 Hela Provincial Government

The Hela Provincial Government's Audit Opinions of the financial statements for the years ended ending 31 December, 2013 and 2014 were reported in my 2015 Part 3 Report.

6.9.2.1 Status of Financial Statements

At the time of preparing this Report in September, 2017 the Hela Provincial Government had not submitted its Annual Financial Statements for the years ended 31 December, 2015 and 2016 for my inspection and audit.

6.9.3 Tari Urban Local-level Government

6.9.3.1 Status of Financial Statements

At the time of preparing this report in September, 2017, the Tari Urban Local-Level Government had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015 and 2016. These audits will be done as soon as the respective financial statements are submitted to my Office.

6.9.4 Hela Provincial Health Authority

6.9.4.1 Status of Financial Statements

At the time of preparing this report in September, 2017, the Hela Provincial Health Authority for its first year of operation had submitted its 2016 financial statement for my inspection and audit. The fieldwork associated with the examination of the accounts and records have been completed and the results are being evaluated. That being the case, my report on the Authority will be in my 2017 Report.

6.10 JIWAKA PROVINCE

6.10.1 Introduction

The Jiwaka Province was created through an Act of Parliament on 14 July, 2009. However, it gained its provincial status on 17 May, 2012. The Jiwaka Provincial Government will be audited every year, with or without financial statements. At the time of audit in September, 2017, the Jiwaka Province had not properly established an Urban Local-level Government and a Provincial Health Authority.

6.10.2 Jiwaka Provincial Government

The Jiwaka Provincial Government's audit opinion for the year ended 31 December, 2013 was reported in my 2015 Part 3 Report. I also included the results of my review on its Control Environment for the years ended 31 December, 2014 and 2015.

6.10.2.1 Status of Financial Statements

At the time of preparation of this Report in August, 2017, the Jiwaka Provincial Government had not submitted its Annual Financial Statements for the years ended 31 December, 2014, 2015 and 2016 for my inspection and audit.

I have written to the Administrator in June, 2017 concerning his statutory obligations to produce the respective financial statements and he has not responded to date.

6.10.3 Jiwaka Urban Local-level Government

6.10.3.1 Status of Financial Statements

The Jiwaka Province had not established a functioning Urban Local-level Government. When a Jiwaka Urban Local-level Government is established, it is required to prepare annual financial statements for my inspection and audit.

6.10.4 Jiwaka General Hospital Board

6.10.4.1 Status of Financial Statements

The Jiwaka Province had not established a Provincial Hospital Board. When the Provincial Hospital Board is properly established and financially operational, it is required to prepare annual financial statements for my inspection and audit.

6.11 MADANG PROVINCE

6.11.1 Introduction

The Madang Provincial Government, Madang Urban Local-level Government and Modilon General Hospital Board are audited every year, with or without financial statements. Other Local-level Governments (LLGs) and the Business Arms of the Provincial Government could not be audited due to financial constraints faced by my Office and the lack of records and logistical support from the respective Governments and Business Arms.

6.11.2 Madang Provincial Government

Madang Provincial Government had submitted its financial statements for the year ended 31 December 2015. Fieldwork associated with the audit of the financial statements and the accounts and records had been completed with the Management Letter and audit report issued.

6.11.2.1 Comments on Financial Statements - 2015

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the Madang Provincial Government for the year ended 31 December 2015 was issued in 2017. The report contained Disclaimer Audit Opinion and is reproduced as follows:

“Basis for Disclaimer Opinion

Cash balances

I am unable to express an opinion on the accuracy of the cash at bank balances and consequently, on the financial position of the Madang Provincial Government as at 31 December 2015 due to the following reasons:

- There was limitation of scope arising from disclaimed audit opinion in the prior year. Remedial adjustments taken to correct the account balances had not been provided for my examination. In addition, the operating surplus for the current year was materially misstated as discussed under the paragraph of Receipts and Payments. Consequently, I was unable to verify and confirm the accuracy of the accumulated fund balance of K20,998,040;
- The Trust Fund Balance of K105,212 included the Sub National Strategy Trust Fund balance of K9,856 which is a dormant book value carried over from previous years. In the absence of accounting books and records pertaining to this trust account I was unable to confirm its existence and the subsequent Trust Fund Balance as at year then ended; and

- Significant reconciling items identified in the bank reconciliation statement had not been adjusted in the cashbook and this affected the cash balances at year end. Further, stale cheques totaling K336,132 have not been identified, cancelled and written off with prior approval from authorities and I was not provided explanations and documentary evidence of any adjustments made. Consequently, I was unable to confirm the completeness and accuracy of the year-end cash at bank balances.

I was not provided the necessary documentation, the required explanation or the reconciliation for the significant discrepancies. Consequently, I am not able to verify the validity and the correctness of the accumulated fund balance as at year ended 31 December, 2015.

Receipts and Payments

I am unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the net surplus/deficit of K1,149,917 as at 31 December, 2015 due to:

- Staffing Grants and Teachers' Salaries of K71,095,000 which is retained and spent from Public Accounts of Department of Finance was reported in this financial statement. However, this expenditure was not captured and recorded in the provincial government's books of accounts and I was not provided the required explanation and evidence of adjustment made if any. Consequently, I am not able to verify the accuracy and completeness of this disclosure in the financial statements.
- Substantial reconciling items pertaining to revenue of K546,870 and expenditure of K482,764 identified in the bank reconciliation statements were not adjusted in the respective cashbooks and posted to the appropriate ledgers and the subsequent revenues and expenditures in Statements 'B', 'J' and 'K'.

Investments

The Province has an investment in the Madang Development Corporation of K500,000 as at 31 December 2015. In absence of investment register, share certificates and related records I was unable to confirm the existence, accuracy and completeness of the investments as at year end.

Debtors

Appendix 2 reported Debtor and Receivables as *nil* as at 31 December 2015. The Madang Provincial Government did not maintain debtors' ledgers for uncollected debts in respect of all revenue heads during the year. Further, an amount of K76,955 was reported in the 2014 financial statements however, this figure was not reflected in the comparative balances for the 2015 financial statements and the reconciliation for the clearing off of this balance in 2015 was not made available for my examination. I was not provided with explanations and reconciliations for discrepancies highlighted. Consequently, I was

unable to verify the accuracy and completeness of the *nil* balance reported as at the year ended.

Inventories

Appendix 3 reported Inventories of K11,664,888 as at 31 December 2015. The details of the inventories in note 14 are not reflective of appendix 3 as note 14 reflected the 2014 balances with the 2013 comparatives. As a result, the balances reflected in note 14 are incorrect and misleading.

Further, this appendix showed only additions of inventories to the opening balances and not the inventories disposed and/or consumed during the year. I noted that inventories such as consumables and fuel purchased during the year have been consumed however not reconciled and adequately reported in the appendix. The respective registers maintained at respective cost centers as stated in note 14 were not adequately updated to reflect the movement of inventories during 2015.

I was not provided with explanations and reconciliations for discrepancies highlighted. Consequently, I was unable to verify the accuracy and completeness of the inventory balance reported as at the year ended.

Assets

Appendix 4 of the financial statements showed Assets as K20,106,658 as at the year ended 31 December 2015. A centralized Assets Register was not maintained to consolidate all registers maintained at cost centers and stock takes of assets and inventories were not carried out during the year. In the absence of a centralized Assets Register and annual stock takes, I was unable to confirm the value, existence and completeness of assets owned by and in the custody of Madang Provincial Government as at 31 December, 2015.

Advances

The appendix 6 reported un-acquitted advances of K1,607,046 as at the year ended 31 December, 2015. I was not provided a proper and accurate reconciliation of the outstanding advances for the year then ended. Consequently, I am able to ascertain the accuracy of the total advances paid during the year and establish the total amount of un-acquitted advances at year end.

Significant Control Weaknesses

There were significant control weaknesses identified in the Provincial Government's records and processes, as follows:

- The Provincial Government did not maintain a proper customer data base with an effective billing system in the revenue section for the collection of revenue from the major internal revenue sources such as Goods and Services Tax (GST), Liquor Licensing Fees and Motor Traffic Registration Fees. Evidence of check and balances were non-existent. Segregation of duties being the key element of control

was not being exercised. Staff were performing overlapping tasks in cash collection, receipting, recording and paying;

- The process applied in disposing of assets could not be established for fairness and equity. There was conflict of interest involved by PSTB members who successfully bid for motor vehicles. There was no independent declaration enclosed with the PSTB decisions made to the successful bidders. Also, some of those disposable vehicles were underpaid which shows that most of these bidders did not have the capacity to pay the full disposal amount and have denied potential bidders who would generate substantial amount of revenue to the provincial government.
- Non-maintenance of accounting records such as FF3 register, claims register, verbal & written quotation registers, centralized assets and advances registers;
- Significant volume of expenditure transactions charged to inappropriate vote items and also there were numerous instances of unbudgeted commitment paid from the 2015 appropriation;
- instances of claims not thoroughly examined and certified and a lack of proper and appropriate supporting documentations in payment of claims;
- With the exception of Grants paid to the LLGs, there was no accountability report provided for funds paid to public authorities neither were there any evidence sighted to suggest that a systematic monitoring process existed and functioning effectively to ensuring that funds paid in this manner were appropriately used for purposes intended.
- There was no proper and standard guideline governing funds being allocated or paid for financial assistance.
- Excessive expenses were incurred on vehicle hire as there was no control over the hiring of vehicles and the genuineness and economical purpose of hire could not be determined due to lack of supporting documentations or if paid were for services already rendered and as such there were no deliberation on the purpose of hire, number of days hired, rate charge and approval obtained from the appropriate authority.
- Personal monies reimbursements by individuals lack proper receipts or relevant documents in support of claims made. A number of faulty claims docking a total of K435,600 for various types of payments which do not have the necessary documentations and approvals and the valid evidences for reimbursements.
- A significant expenditure of K7, 394, 968 was incurred on the Capital works and maintenance programs during the year. I noted that the Provincial Government's Provincial Supply & Tenders Board and its Works Division did not ensure proper tendering processes in engaging contractors for major projects. In addition, the PSTB Technical and Evaluation Committee evaluation and analytical reports were not sighted to ascertain proper evaluation and recommendations made to the Board. Also pre-qualification list of local contractor was lacking.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of Madang Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989* (as amended) I have a duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- the Madang Provincial Government did not maintain proper accounts and records and consequently in breached *Section 68(1) of the Public Finances (Management) Act, 1995*;
- the receipts and payments and investments of moneys and the acquisition and disposal of assets during the period covered have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-Level Governments*; and
- The Madang Provincial Government has not prepared and submitted its financial statements for the year ended 31 December 2015 to the Minister and the Auditor-General within the required timeframe in contravention of *Sections 114 and 119 of the Organic Law on Provincial and Local Level Governments.*”

6.11.2.3 Management Response

The above observations had been communicated by way of a Management Letter to the management together with implications and recommendations for improvements. I had however, not received the responses to the Management Letter as at the time of preparing this Report in September 2017.

6.11.2.4 Status of Financial Statements

At the time of preparing this Report, Madang Provincial Government had submitted its financial statements for the year ended 31 December 2016 for my inspection and audit and field audit will commence shortly when funding becomes available.

6.11.3 Madang Urban Local-Level Government

6.11.3.1 Status of Financial Statements

At the time of preparing this Report in September 2017, the Madang Urban Local-Level Government had not submitted its financial statements for the years ended 31 December 2011 to 2016 (6 years) for my inspection and audit.

The audit of the 2011 and 2012 financial statements had been dispensed due to delays in the submission of the financial statements.

6.11.4 Modilon General Hospital Board

6.11.4.1 Status of Financial Statements

At the time of preparing this Report in September 2017, the Modlion General Hospital Board had submitted its financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 for my inspection and audit. The field audit will commence shortly when funding becomes available.

The financial statement for the year ended 31 December, 2016 has not been submitted for my inspection and audit.

6.11.5 Business Arms

Section 16 (2) (f) of the *Audit Act 1989* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-Level Government Business Arms and other establishments.

I am aware that Madang Provincial Government had a number of business arms including Madang Development Corporation. Records pertaining to these investments were not made available for my examination and as such I was unable to comment on the operations and financial results of these entities.

6.12 MANUS PROVINCE

6.12.1 Introduction

The Manus Provincial Government, Lorengau Urban Local-level Government and Lorengau General Hospital are audited annually with or without the financial statements. The annual audits of the Rural Local-level Governments and the Business Arms of the Provincial Government could not be audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Local-level Governments and Business Arms.

6.12.2 Manus Provincial Government

6.12.2.1 Status of Financial Statements

At the time of preparation of this Report in September, 2017, the AGO was advised that the financial statements for the year ended 31 December, 2015 were in the process of being finalized while the draft financial statements for the year ended 31 December, 2016 were submitted for my inspection and audit. The field work associated with audit of the internal control environment for 2015 and the examination of the financial statements and the audit of the accounts and records for 2016 however, could not be conducted due to financial constraints faced by my Office as well as the uncertainties associated with the 2017 National General Elections.

6.12.3 Lorengau Urban Local-level Government

6.12.3.1 Status of Financial Statements

At the time of preparation of this Report in September, 2017, the Lorengau Urban Local-Level Government (LULLG) had submitted its financial statements for the year ended 31 December, 2015 while the financial statements for 2016 were being prepared. Field work associated with the examination of the financial statements and audit of the accounts and records for 2015 and the audit of control environment for 2016 however, could not be conducted due to manpower and financial constraints faced by my Office as well as the uncertainties associated with the 2017 National General Elections.

6.12.4 Lorengau Hospital Board

6.12.4.1 Status of Financial Statements

The Lorengau Hospital Board had not submitted its annual financial statements for the years ended 31 December, 2013, 2014, 2015 and 2016 at the time of preparation of this Report in September, 2017 for my inspection and audit.

6.12.5 Business Arms

Section 16(2) (f) of the *Audit Act 1989* provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-level Government

Business Arms and other establishments. The Manus Provincial Government has investments in number of business arms as reported below.

6.12.5.1 Manus Fishing Corporation Ltd

The Corporation was established by the *Manus Fishing Corporation Act 2003* with the objective and functions as stipulated under the relevant Sections of the Act. As reported in my previous reports, the Corporation is 100% owned by the Provincial Government. The Corporation was said to have a fleet of two vessels, however, without any return to the Provincial Government. Documents such as share certificate or certificate of incorporation were not available for my review. At the time of preparation of this Report in September, 2017 the company had not submitted any recent financial statements for my review and audit.

6.12.5.2 Manus Shipping Authority

The Authority was established by the *Manus Provincial Shipping Authority Act 1994*. As reported in my previous reports, the Authority was reported to have operated a fleet of three vessels. Out of these, only one vessel is said to be in operation since 2003. Profits from the operation are shared between the Provincial Government and the operator net of running costs. At the time of preparation of this Report in September, 2017 the Authority had not submitted any recent financial statements for my review and audit.

6.12.5.3 Kei Beseu Kampani Ltd

As reported in my previous reports, the Manus Provincial Government holds 522 shares as a single majority shareholder at 34% while the various landowner groups share the balance of the shares in the entity. At the time of preparation of this Report in September, 2017 the company had not submitted its financial statements for the five (5) years ended 31 December, 2016 for my review and audit.

6.12.5.4 Lorengau Hotel Ltd

As reported in my previous reports, the Lorengau Hotel Ltd was incorporated in October 1974 with the Manus Provincial Government share having a share of 50% to 80% and the remaining balance shared between the Kei Beseu Kampani Ltd and the Local-level Governments. At the time of preparation of this Report in September, 2017 the company had not submitted its financial statements for the five (5) years ended 31 December, 2016 for my review and audit.

6.13 MILNE BAY PROVINCE

6.13.1 Introduction

The Milne Bay Provincial Government, Alotau Urban Local-level Government and Milne Bay Provincial Health Authority are audited every year with or without financial statements. Other LLGs and the Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective LLGs and Business Arms.

6.13.2 Milne Bay Provincial Government

The Milne Bay Provincial Government had submitted its financial statements for the financial years ended 31 December, 2014 and 2015. The fieldwork associated with audit of the financial statements and the accounts and records for 2014 and 2015 had been completed with the respective management letters and audit opinions issued accordingly. The issues identified with the financial statements and the control environments are summarized in the paragraphs below.

6.13.2.1 Comments on Financial Statements – 2014 and 2015

My reports to the Ministers concerned and other relevant bodies under the *Organic Law and Audit Act* on the Milne Bay Provincial Government's financial statements for the years ended 31 December, 2014 and 2015 were issued on the February and March 2017 respectively. The reports contained similar Disclaimer Audit Opinions hence, only the 2015 report is reproduced as follows:

Basis for Disclaimer Opinion

Presentation Errors

Finance Instructions 5/2000 issued under *Section 117* of the *Public Finances (Management) Act, 1995* state the prescribed format for the preparation and presentation of the financial statements for Provincial Government.

The financial statements of Milne Bay Provincial Government for the year ended 31 December, 2015 fully complied with the formats prescribed by Finance Instruction 5/2000. I am however, unable to express an opinion on the accuracy and completeness of the financial statements due to the following issues as stated under the paragraphs below that render the financial statements inaccurate and misleading:

The declaration of the Financial Statements being true was not signed off accordingly by the Provincial Administrator and the Provincial Treasurer.

Cash Balances

Statement 'A' showed the Fund Balance of K13,009,174 represented by closing cash balances of the Provincial Government Operating Account of K5,502,763 and Provincial Government Grant Account of K7,506,411 as at 31 December, 2015. I however, noted the following errors and inconsistencies which render the statement inaccurate and unreliable:

The Opening Revenue Fund Balance of K1,657,897 overdrawn used in Note 3 computations contains errors brought forward from previous years.

Under 6.1 of the notes to and forming part of the financial statements revealed bank balances of K5,502,763 (Westpac) and K7,506,411 (BSP). However, inconsistencies were noted in reporting of these balances in my review of the Bank Reconciliation Statements for the two accounts for the month ending 31 December, 2015.

Investments

This statement is intended to show all short term investments by the Provincial Government during the year. This statement showed no short term investments although MBPG had an IBD investment of K3,000,000 which should have been reported in this statement. Furthermore, the interest revenue earned of K32,818 was not shown in this statement, although were taken up in the revenue ledgers under statement 'J'.

Assets

Appendix 4 to the financial statements reported total value of assets as at 31 December 2015 to be K22,643,661. My review of the of the controls surrounding asset management revealed the following matters of concern; land and building were recorded without their values, no evidence to indicate that a periodic stock take was undertaken and details of assets disposed of were not reflected on the asset register.

Significant Control Weaknesses

There were significant control weaknesses with the Milne Bay Provincial Government's records and internal control processes as stated below:

- Payment vouchers, contracts, completion reports, certification reports, tender documents and status reports for minor and major capital works totaling K3,469,883 were not made available for audit, hence could not be verified.
- The Provincial Government had expended a total of K10,292,107 on grants and subsidies during the year. I have however, not sighted evidence to indicate proper controls were in place to ensure funds paid were properly accounted for by the recipients.
- In one instance, a collector statement for an amount of K210,030 could not be substantiated with relevant copies of official receipts and deposit slips.

- Travelling Allowances and General Advances totaling K 99,340 and K78,712 respectively for the year under review remained un-acquitted as at 31 December 2015 require a thorough investigation for prompt clearance and recovery where necessary.

Disclaimer Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of Milne Bay Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)*, I have a duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- Milne Bay Provincial Government did not maintain proper accounts and records and has consequently breached *Section 68(1) of the Public Finances (Management) Act, 1995*; and
- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements were not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*.”

6.13.2.2 Management Response

The observations on the audit of the financial statements and the accounts and records for the year ended 31 December, 2015 had been communicated by way of a Management Letter to the Provincial Administrator together with recommendations for improvements. However, the responses to the Management Letter had not been received at the time of preparation of this Report.

6.2.2.3 Status of Financial Statements

The Milne Bay Provincial Government had submitted its financial statements for the year ended 31 December, 2016. However, due to the AGO's funding issues the audit has been delayed up to the time of preparation of this Report in September 2017.

6.13.3 Alotau Urban Local-level Government

The audit of the financial statements for the year ended 31 December, 2014 was completed with Management Letter issued to the Ministers and agencies concerned. The Issues raised are reported hereafter.

6.13.3.1 Comments on the Financial Statements - 2014

My report on the Alotau Urban Local Level Government 2014 to the Ministers concerned and other relevant agencies under the *Audit Act, 1989 (as amended)* was issued in July, 2017. The report contained Qualified Audit Opinion and it is reproduced below:

Basis for Qualified Audit Opinion

Financial Statements

The Funds

Statement A disclosed total funds available as K283,015 for the year ended *31 December, 2014*. However, the bank balances were not properly reconciled to the General Ledger due to an incorrect accounting procedure where the Cash at bank of K1,017,998 was reconciled to itself, instead to the cashbook. As the account balance disclosed for the year was understated and incorrect, I am unable to confirm the true and fairness of the disclosure for the year ended *31 December, 2014*.

Debtors – Appendix 2

The debtors for the year ended *31 December, 2014* were reported as *NIL* in *Appendix 2* to the financial statements. However, the debtors of the prior year totaling K1,447,359 were not disclosed. Consequently, I was unable to confirm the validity and the correctness of the account balances for the year ended.

Assets – Appendix 4

Assets were stated as K1,711,552 in the *Appendix 4* to the financial statements. However, Assets purchased during the year totaling K287,685 were not disclosed in the *Appendix* accordingly. As a result, I was unable to satisfactorily confirm the validity and the correctness of the disclosures made in the *Appendix 4* to the financial statements for the year ended *31 December, 2014*.

Advances – Appendix 6

In *Appendix 6* to the financial statements of un-acquitted advances remain outstanding at year end as (K27,925). However, 80% (K22,215) of these advances were for prior years and were not vigorously pursued and recouped by the *Alotau Urban Local level Government*. As there were outstanding advances even for the year ended *31 December, 2014*, the Local Level Government breached the requirements of the *Public Finance (Management) Act, 1995* in terms of advance management.

Significant Control Weaknesses

There was significant control weaknesses identified in *Alotau Urban Local-level Government's* records and processes, as follows:

- The *Alotau Urban Local Level Government* revised budget for its revenue and expenditures were estimated at K2,297,000 and K2,297,000 respectively. However, the actual receipts and payments were under collected by K630,008 and overspent by K274,101 respectively during the year. I was not provided the necessary documentation or explanations for the budget deviations which resulted in unauthorized appropriations. As a result, I am unable to satisfy myself on the validity and the authenticity of the deviations that occurred during the year ended *31 December, 2014*.
- The bank reconciliations of the Local Level Government were not checked and verified as correct by senior accountable officers during the year. In the bank reconciliations, un-presented cheques for May, July, September, October and November 2013 totaling K3,969 with cheques were not written back to the cash book as soon as the cheques became stale. Further, reconciling items including errors or omissions in the bank reconciliations for the year end totaling K736,112 were not satisfactory rectified with the bank during the year ended *31 December, 2014*.
- Proper and disciplined procurement procedures and practices were not adopted by the Local Level Government during the year. Payments for Fuel and for Assistances and Pledges totalling K66,616 and K24,623 respectively were improper. Further, payments totaling K95,720 for town cleaning and related activities were not supported with the casual listing, hourly rates and subsequent endorsement of receipts.
- The governance procedures at the *Alotau Urban Local Level Government* were weak and lacked cohesive direction to achieve corporate goals. Further, it did not have a Corporate Plan and it was not possible to assess the activities earmarked.
- Internal Audits were not conducted on the *Alotau Urban Local Level Government* by the *Milne bay Provincial Government* internal auditors to ensure probity and integrity of the local level government's systems and processes to safe guard against loss and misuse.

Qualified Audit Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Audit Opinion paragraphs, the financial statements of the *Alotau Urban Local-level Government* for the year ended *31 December, 2014*,

- (a) give a true and fair view of the financial position and the results of its operations for the year then ended; and
- (b) with exception of instances of non-compliance described under *Significant Control Weaknesses*, the financial statements have been prepared in accordance with the *Public Finances (Management) Act, 1995* and generally accepted accounting practice.”

6.13.3.2 Management Response

The observations on the audit of the financial statements and the accounts and records for the year ended 31 December, 2014 had been communicated by way of a Management Letter together with recommendations for improvements. However, the responses to the Management Letter had not been received at the time of preparation of this Report.

6.13.3.3 Status of Financial Statements

At the time of preparing this Report in September 2017, the Alotau Urban Local Level Government had not submitted its financial statements for the years ended 31 December, 2015 and 2016 for my inspection and audit.

6.13.4 Milne Bay Provincial Health Authority

The Milne Bay Provincial Health Authority (PHA) had submitted its financial statements for the year ended 31 December, 2015. The fieldwork associated with the audit of the financial statements and accounts and records had been completed. The Management Letter was issued and the audit report results were being evaluated at the time of preparation of this Report in September 2017.

6.13.4.1 Management Response

The observations on the audit of the financial statements and the accounts and records for the year ended 31 December, 2015 had been communicated by way of a Management Letter to the Chief Executive Officer of Milne Bay Provincial Health Authority together with recommendations for improvements. However, the responses to the Management Letter had not been received at the time of preparation of this Report.

6.13.4.2 Status of Financial Statements

The Milne Bay Provincial Health Authority had not submitted its financial statements for the year ended 31 December, 2016 at the time of preparation of this Report in September 2017.

6.13.5 Business Arms

Relevant *Section 16(2) (f)* of the *Audit Act* provides for and extends my functions to audit the accounts and records of the Provincial and the Local Level Government Business Arms and other establishments.

I am aware of two business arms of the Milne Bay Provincial Government namely, Milne Bay Properties Ltd and Miba Microfinance Ltd. At the time of preparing this Report in September, 2017, the business arms had not submitted any financial statements for my inspection and audit. Consequently, I am unable to comment on the operations and financial results of the entities.

6.14 MOROBE PROVINCE

6.14.1 Introduction

The Morobe Provincial Government (MPG), Lae Urban Local-level Government (LULLG) and Angau Memorial General Hospital (AMGH) are audited every year, with or without financial statements. Other Local-Level Governments and the Business Arms of the Provincial Government could not be fully audited due to financial constraints faced by my Office and the lack of records and logistical support from the respective entities.

6.14.2 Morobe Provincial Government

The Morobe Provincial Government had submitted its financial statements for the financial year ending 31 December 2015 for my inspection and audit. Field work associated with examination of the financial statements and audit of the accounts and records was completed with both the Management Letters and Audit Opinion Reports issued. The issues identified with internal control environment for 2015 were reported in the 2015 Part 3 Report and hence only the issues identified with the financial statements are detailed in paragraphs below:

6.14.2.1 Comments on Financial Statements – 2015

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in July 2017. The report was a Disclaimer of Opinion as reproduced below:

Basis for Disclaimer Audit Opinion

Incorrect amounts presented in thousands

The financial statements of Morobe Provincial Government for the year ended 31 December, 2015 are misleading as a result of error in the presentation of the statements. Namely, amounts in Statements 'A' and 'C' to 'I', Appendices 1 and 2 and Notes 3 to 4 and 6 to 17 of the notes to and forming part of the financial statements were incorrectly presented in amounts of 'thousands' ('000) instead of the original amounts.

Opening Balances

Because of the disclaimer opinion issued in respect of the year ended 31 December, 2014 and of other limitations on the scope of my audit as noted below, I was not able to satisfy myself as to the completeness and accuracy of the opening balances. Since these opening balances would affect the determination of the financial position and the cash flows of the Morobe Provincial Government in the current year, I was unable to determine whether adjustments to the respective cashbooks and the financial positions, might have been necessary for the year ended 31 December 2015.

Cash balances

I am unable to express an opinion on the accuracy of the total fund balance of K8, 142,023 for Morobe Provincial Government as at 31 December 2015 due to:

- Significant reconciling items identified in the bank reconciliation statements of the operating, grant and provincial works trust accounts that had not been adjusted in the respective cashbooks and hence affected the balances and the subsequent total fund balance at year end. I was not provided explanations and documentary evidence of adjustments made if any. Consequently, I was unable to confirm the completeness and accuracy of the year-end cash at bank balances disclosed in the Statement 'A'; and
- Trust Accounts with bank accounts which had their accounts and records operated through the Provincial Government Accounting Systems (PGAS) were disclosed in statement 'C' whilst those operated outside the PGAS were not. The two (2) trust accounts namely, Morobe Provincial Sports Council and Morobe Provincial Disaster and Emergency Trust with bank accounts received additional funding in total of K963, 226 in 2015 from the Provincial Government however, were not reported. I was not provided sufficient documentation and necessary explanation for the non-disclosure. Consequently, I was unable to ascertain whether all trust accounts operated by the Provincial Government have been properly accounted for and disclosed in the financial statements.

Receipts and Payments

Significant reconciling items relating to revenue and expenditure appearing in the December bank reconciliation were not adjusted to the cashbooks and respective ledgers and as a result were not incorporated in the financial statements. Consequently, I am unable to verify the completeness and accuracy of the receipts of K287,308,140 and payments of K282,334,200 and subsequently, the operating surplus of K 4,973,247 in Statements 'B', 'J' and 'K'.

Investments

The Morobe Provincial Government did not report any Investments in statements 'E' and 'F' of the financial statements. However, the Provincial Government has Business Arms, namely Kungie Holdings and Morobe Sustainable Investment. As reported in 2014, K1,000,000 was paid to Kungie Holdings in 2013 being for establishment of MPG Umbrella Company and a K900,000 was paid to Morobe Sustainable Investment. These investment Companies were not disclosed in statement 'F'. Further, there were no investment related documents such as Share Certificates, Trust Deeds, Investment Registers, Company Certificates and profiles maintained to record details of investments held by the Provincial Government. Consequently, I am unable to ascertain the value of investments held by the Provincial Government.

Outstanding Commitments and Arrears

The outstanding commitments and arrears reported in appendix 1 with its details shown in note 12 were inconsistent and varied. I noted that these balances were the same reported in the 2014 financial statements. I was not provided an explanation for these discrepancies and in the absence of commitment registers and related records I was unable to verify the completeness and accuracy of the outstanding commitments and arrears reported as at the year ended 31 December, 2015.

Debtors

The appendix 2 showed nil debtors and receivables as at 31 December 2015. However, note 13 forming part of the financial statement for 2015 showed a closing debtors balance of K97,160 being balance brought forward from 2014. I was not provided an explanation for this discrepancy and in the absence of debtor's ledgers I was unable to confirm the completeness and accuracy of the debtors and receivables as at the year ended 31 December, 2015.

Assets

Appendix 4 showed nil summary of assets whilst note 15 of the notes to and forming part of the financial statements showed a total of K6,440,147 which was a carry forward figure from the 2014 resulting in significant variances and inconsistencies. Further, good asset management was not practiced and in the absence of a complete assets register and annual stock-takes, I am unable to confirm the existence, completeness, condition and value of all assets owned by the Morobe Provincial Government as at 31 December, 2015 which included motor vehicles as there was also lack of control over the Provincial Government Fleet of Vehicles.

Advances

Appendix 6 showed total un-acquitted advances of K3,403,109 as at 31st December 2015 whilst note 17 of the notes to and forming part of the accounts showed a total amount of K4,794,642 resulting in significant variances. Both disclosures were mere carry forward balances from prior years without any movement during the year. Further, in the absence of proper records such as advance register, acquittal files, reminder notices and evidence of recovery actions taken against defaulters, I was unable to confirm the accuracy and completeness of the total un-acquitted advances as at year end.

Significant Control Weaknesses

There was significant control weaknesses identified in the Provincial Government's records and processes as follows:

- The Provincial Government did not maintain a proper customer data base with an effective billing system in the revenue section for the collection of revenue from the major internal revenue sources such as Goods and Services Tax (GST), Bookmakers Tax, Liquor Licensing Fees and Motor Traffic Registration Fees etc. resulting in under collection of internal revenue totalling K8,104,131. Further,

evidence of check and balances were non-existent and segregation of duties being the key element of control was lacking. Staff were performing overlapping tasks in cash collection, receipting, recording and banking;

- The financial power of a Section 32 officer were improperly delegated to the Chief of Staff for the Governor's Office through the consultancy company that was engaged to provide consultancy services to the Governor and hence was in breach of Section 32. The consultancy company was paid at K20,000 per month;
- Three quotations were not obtained in most instances prior to the purchase of goods and services nor was there a quotations register maintained;
- An advance payment of K40,000 was made to Prime Travel Services for travel expenses including airfares, vehicle hire and accommodation for officers of the Provincial Government. These payments were seen to be non-compliance to requirements of proper procurement procedures and the requirement for acquittal stipulated in the *Public Finances (Management) Act*;
- Project Files for the construction and maintenance of roads, bridges, buildings, installation of water supply, and fencing of residence were not made available for my verification although requested. Consequently, I was unable not verify if selected projects undertaken during the year totalling K3,826,578 were completed;
- *Public Finances (Management) Manual* pertaining to maintenance of proper Assets Register during the year was not complied with by the Morobe Provincial Government. A Central Asset Register was not maintained to record details of purchases and disposal of assets during the year and prior years. So as a proper policy and guidelines on the management and control of state assets was not in place; and
- Proper control and strict compliance was lacking in Advances Management procedures as stipulated under the *Financial Instruction Manual*. Advances register was not maintained and up-dated yearly while acquittal processes lacked miserably while management allow holder of outstanding advance to acquire second and third advances.

Disclaimer of Audit Opinion

In my opinion, because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of the Morobe Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- the Morobe Provincial Government did not maintain proper accounts and records and has consequently breached *Section 68(1) of the Public Finances (Management) Act, 1995*;
- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*; and
- The Morobe Provincial Government has not prepared and submitted its financial statements for the year ended 31 December, 2015 to the Minister and the Auditor-General within the required timeframe in contravention to *Sections 114 and 119 of the Organic Law on Provincial and Local Level Governments*.”

6.14.2.3 Management Response

Management had not responded to the matters raised in my Audit Management Letter for 2015. Consequently, I am unable to determine if there were any improvements at the time of preparing this Report in September, 2017.

6.14.2.4 Status of Financial Statements

The Morobe Provincial Government had not submitted its Financial Statement for the financial year ended 31 December, 2016 for my inspection and audit. However, the field work associated with audit of the internal control environment was completed and the results are being evaluated at the time of preparing this Report in September, 2017.

6.14.3 Lae Urban Local-level Government

The Lae Urban Local-level Government did not submit its financial statements for the years ended 31 December 2012, 2013, and 2014. Consequently, I was unable to comment on the financial status and the management of the funds for Lae ULLG. Interim audits on the internal control environments for these years were conducted with Management Letters issued respectively. The internal control issues for 2012 and 2013 were reported in the 2014 Part 3 Report and the 2014 audit findings were reported in the 2015 Part 3 Report.

6.14.3.1 Status of Financial Statements

Status of the three years financial statements were unavailable, however problems associated with operating system and back logs of outstanding entries in both years

accounts may not allow for an early preparation and presentation of the financial statements. The financial statements are still not prepared.

At the time of preparing this Report in September, 2017, the financial statements of Lae ULLG for the years ended 31 December 2012, 2013, 2014, 2015 and 2016 had not been submitted for my inspection and audit.

6.14.4 Angau Memorial General Hospital

The Angau Memorial General Hospital had submitted its financial statements for the years ended 31 December 2015. Fieldwork associated with audit of the accounts and records and the examination of the financial statements were completed with the Management Letter issued and audit opinion report was issued to the Minister concerned. The paragraph below details the issues identified with the financial statements and the control environment.

6.14.4.1 Financial Statements – 2015

My report to the Minister concerned and other relevant bodies under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Angau Memorial General Hospital for the year ended 31 December 2015 was issued in April 2017. The report was an unqualified as reproduced as follows:

Audit Opinion

In my opinion the financial statements of Angau Memorial General Hospital for the year ended 31 December, 2015:

- a) give a true and fair view of the financial position and the results of its operations for the year then ended in accordance with the Finance Instructions; and
- b) With the exception of instances of non-compliance described under Other Matters, the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act, 1995*.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have a duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- a) Angau Memorial General Hospital did not maintain proper accounts and records as detailed below and has consequently breached *Section 68(1) of the Public Finances (Management) Act, 1995*;
 - the Chief Executive Officer is required under *Part 32, Division 1* of the *Public Financial Management Manual* to maintain proper Assets Registers under the classifications of Land and Buildings; Furniture and Fitting; Office Equipment;

Motor Vehicles; Marine Vessels; Plant and Machinery and Tools and Equipment and to submit a comprehensive report on details of assets on hand with details extracted from Stock Cards at the end of each quarter, within 30 days of the subsequent month. This requirement has not been complied with by the Angau Memorial General Hospital;

- *Part 20, Paragraph 5 and 14 of the Financial Management Manual stipulates the procedures and guidelines for the effective management of Advances by State entities. The hospital management has not complied with this requirement; and*
- b) Angau Memorial General Hospital has not prepared and submitted its financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December 2015, resulting in breaches of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act 1995*.”

6.14.4.2 Management Response

Hospital Management has responded to my Audit Management Letter queries and corrections, improvements, and adjustments noted from the management responses has been rectified with the management prior to issuing the audit report.

6.14.4.3 Status of Financial Statement

The Angau Memorial General Hospital had submitted its financial statements for the year ended 31 December 2016 for my inspection and audit. Fieldwork associated with audit of the accounts and records and the examination of the financial statements were completed and the results are being evaluated at the time of preparing this Report in September 2017.

6.14.5 Business Arms

Section 16(2) (f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Government and Local-Level Government Business Arms and other establishments.

I am aware of two business arms of the Morobe Provincial Government namely, Kumghie Holdings Limited and Morobe Sustainable Investment. At the time of preparing this Report in September 2017, the business arms have not submitted any financial statements for my inspection and audit. Consequently, I was unable to comment on the operations and financial results of these entities.

6.15 NEW IRELAND PROVINCE

6.15.1 Introduction

The New Ireland Provincial Government, Kavieng General Hospital and Kavieng Urban Local-Level Government are audited every year, with or without financial statements. Other Rural Local-Level Governments and Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective entities.

6.15.2 New Ireland Provincial Government

Field work associated with the audit of the control environment for the year ended 31 December, 2015 was completed and Management Letter issued. Issues identified in the Management Letter were reported in my 2015 Part 3 Report in 2016. The New Ireland Provincial Government had subsequently submitted its financial statements for my review and audit. Field work associated with the examination of financial statements and audit of related accounts and records was completed with both the Management Letter and the Audit Opinion Report issued. Field work associated with the audit of the control environment for the year ended 31 December, 2016 was also completed in the absence of the financial statements with the Management Letter issued.

6.15.2.1 Comments on Financial Statements – 2015

My Report for the year ended 31 December, 2015 to the Minister concerned and other relevant bodies under the *Organic Law* on Provincial Governments and Local-Level Governments and the *Audit Act* was issued in June, 2017. The report contained a Disclaimer Audit Opinion as reproduced below:

Basis for Disclaimer Opinion

Presentation Errors

Finance Instruction 4/2000 issued under *Section 117* of the *Public Finances (Management) Act, 1995* prescribes the format for the preparation and presentation of the financial statements for Provincial Governments. The financial statements of New Ireland Provincial Government for the year ended 31 December, 2015 had the following non-compliance and presentation issues:

- The Provincial Governor and Acting Provincial Administrator did not present statements specifically outlining the Provincial Governments budget and financial performance for the year ended 31 December, 2015;
- The set of financial statements provided for my review contained an incomplete Table of Contents and Statements 'A', 'H' to 'K' and Appendices 1 to 6 had no page numbers inserted;

- The financial statements are misleading as the amounts in Statements 'C' and 'D' as well as the closing balances reflected in the respective Notes 3, 4, 6 and 17 to the Statement 'A' were incorrectly presented in amounts of 'thousands' of Kina (K'000) instead of the original amounts. Further, Statement 'C' had the opening balance date incorrectly stated as 01st of January, 2014 instead of 01st of January, 2015.

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the New Ireland Provincial Government account balances, the financial position and consequently, the reliability of the financial statements as at 31 December, 2015:

Cash Balances

- The closing Provincial Account Balance of K1,937,894 included an old operating account closing balance of K765,007 which was not supported by evidence of any actual cash held in bank account as this Account was inactive dating back to prior years and that the amount merely represents the closing cashbook balance at the closure of the Operating Account;
- The balance of the Provincial Revenue Fund of K19,956,395 could not be confirmed as correct due to errors and material misstatements of the operating deficit as discussed under the paragraphs on Receipts and Payments; and
- There were material reconciling items identified in the bank reconciliation statements of both the New Ireland Provincial Government Operating and Grant Accounts relating to receipts and expenditure that were not adjusted in the cashbooks and respective revenue and expenditure ledgers and disclosed in Statements 'J' and 'K' which also affected the bank and cashbook balances at year end.

Receipts and Payments

The New Ireland Provincial Government reported its total revenue and expenditure as K34,582,250 and K51,715,831 respectively with an operating deficit of K17,133,581. I am unable to confirm the accuracy of the revenue and expenditure and therefore, the correctness of the operating deficit as at 31 December, 2015 due to the following reasons:

- The total actual revenue and expenditure of K34,582,250 and K51,715,831 disclosed in Statement 'B' were materially misstated as they did not agree with the trial balance total of K34,531,436 and K51,665,017 respectively. As a result, the operating deficit of K17,133,581 is also materially misstated, inaccurate and unreliable;

- The Public Servants' and Teachers' Salaries actual expenditures per TMS report of K50,814 had not been disclosed in Statement 'K' nor taken up in the expenditure ledgers as these were provided for in the Annual Appropriation Act; and
- Material reconciling items relating to receipts and payments identified in the Provincial Government Operating and Grants Accounts' bank reconciliation statements not adjusted in the cashbooks, the revenue and expenditure ledgers and disclosed in Statements 'J' and 'K' had affected accuracy of statement 'B' and the cash balances reported in statement 'A'.

Investments

The Provincial Government had not disclosed any information or balances relating to long term investments in the financial statements. However, as stated in my previous year audit report, the New Ireland Provincial Government held two (2) shares at the cost of K2 in its business arm, namely New Ireland Development Corporation as well as 3,000 shares at the cost of K3,000 in Lottery Management Services which is understood to be defunct. In the absence of adequate confirmation including the investment register and related share certificates, I am unable to confirm the accuracy, existence, ownership and value of investments owned by the Provincial Government as at 31 December, 2015.

Assets

The New Ireland Provincial Government did not disclose details of fixed assets purchased and owned at the closure of the year under review in Appendix 4 to the financial statements. The closing value of fixed assets was also not disclosed in Note 15 to Statement 'A'. The Fixed Assets Register as well as the Motor Vehicle Fleet Register were not maintained on a current basis and lacked complete and accurate information on all fixed assets purchased and/or disposed during the year. Consequently, I am unable to confirm the completeness, accuracy and existence of the fixed assets owned and under the custody of the New Ireland Provincial Government.

Trust Accounts

The New Ireland Provincial Government administered independently the NIPG Royalty Associated Benefits Trust Account that was operated through a separate bank account. I was not provided evidence of Trust Instruments and other related documents to ascertain legality and validity of the transactions through this trust account.

Significant Control Weaknesses

The paragraphs below give a summary of significant control weaknesses identified in the New Ireland Provincial Government's internal control environment:

- Prudent cash management practices continued to be seriously flawed at the Provincial Treasury Office. The duties performed by the Receiver of Public Moneys involving revenue collection, banking and compiling of receiver/collector statements were not checked and certified by a competent authority including

independent and surprise cash counts to ensure all revenues are brought to account and banked intact. Consequently, material amounts of under-banking of revenue collections totaling K22,633 were noted dated back to 2011. Further, amounts recorded in the cash book as collected and stated in the bank reconciliation statements totalling K296,334 dated back to 2010 had not been deposited into the Provincial Government Operating Account;

- In thirty-one (31) instances, payments totalling K10,667,020 were not signed by the duly appointed Certifying Officer to determine the legitimacy of the expenditures incurred prior to processing payment of the claims;
- The New Ireland Provincial Government paid a total of K1,984,932 to a private firm, BSP & Company Inc. for consultancy services rendered on the proposed Namatanai Township Development at Bopire Plantation. The payment of K1,086,522 lacked appropriate supporting documents such as the Contract of Engagement and the required three written quotations while the payment vouchers for the second payment of K898,410 were missing from the file;
- The New Ireland Provincial Government paid K1,476,919 to Nivani Limited and K547,288 to Dekenai Construction Limited. I observed the two payments were not authorized by the appropriate Financial Delegate whilst the Requisition for Expenditure (FF3) for the expenditure of K547,288 was not approved by the appropriate Section 32 Officer;
- In five instances, payment vouchers relating to expenditures incurred totaling K1,731,859 were missing from files and as such, I am unable to ascertain the validity as well as proper authorization of the claims presented for payment;
- The Provincial Governor's Housing Allowance entitlement was paid at the rate of K1,598 per week and therefore, should amount to K83,096 in total for the full year. I observed the Provincial Governor was paid a total of K140,624 in housing allowance for the year for two separate claims, one for K57,528 and the second claim for K83,096;
- The entities, Barlow Industries and Central Lotto Limited were paid K1,155,000 and K957,000 respectively for supply and delivery of corrugated roofing irons to be distributed under the "Roof Over Head" Policy of the Provincial Government. I observed the payment vouchers were not supported with appropriate delivery docket or goods received notes duly certified by the Housing and Assets Manager to confirm the accuracy of the quantity of roofing irons received and that the materials were delivered in good order;
- The Public Works New Ireland Limited by virtue of its name is a registered private company. The entity receives funds from the New Ireland Provincial Government and participates in the management and implementation of capital works and maintenance projects on behalf of Provincial Government. The Joint Provincial Planning and Budget Priorities Committee (JPP&BPC) Decision No. 02/2015

approved a grant of K3,000,000 from roll-over funds to the entity as project manager for specific projects endorsed by the New Ireland Provincial Government. A total of K2,630,800 was paid to the company. I could not determine the relationship between the New Ireland Provincial Government and Public Works New Ireland Limited under such arrangement. Further, I was not provided evidence to suggest the Public Works New Ireland Limited had acquitted the funds by way of furnishing an accountability report on the receipt and expenditure of these grant funds to the Provincial Government;

- In addition, the Provincial Government paid a total of K2,906,386 to several private contractors who were engaged on minor capital and maintenance works. I observed the claims presented for payment were not supported by work in progress reports and/or certificates of completion duly certified a competent technical officer of the Provincial Government to indicate the capital and maintenance works undertaken had been satisfactorily executed and that the payments were proper;
- The New Ireland Provincial Supply and Tenders Board had issued a Certificate of Inexpediency authorizing the expenditure of K337,500 to Omnivoltac PNG Limited for the supply of 5,000 Solar MHZ-200 Lanterns in respect of the Solar Lights Program of the Provincial Government. I observed the issue of Certificate of Inexpediency as improper and inappropriate as the issue of certificate of inexpediency is applied only in times of natural disasters and emergency situations. Further, I observed the New Ireland Provincial Supply and Tenders Board did not have in place a competent Tender Evaluation Committee to screen, evaluate and recommend to the Board for their deliberations and considerations with such specific information on suitable bidders for the jobs/contracts tendered based on their company profiles, expertise and financial background, etc.;
- Two retrenched employees of the Provincial Government were paid their final net entitlements totaling K138,827 as at 10th of December, 2014. The employees were again paid a combined total of K154,087 as at 04th of March, 2015. I observed that the additional payments should have been less if it related to the period from 11th December, 2014 and 04th March, 2015.
- Effective management practices on monitoring and acquittal of travelling allowances and cash advances was lacking. As stated in my previous year audit reports, several senior officers of the Provincial Administration who were paid lump sum cash advances ranging from K11,375 to K200,000 had failed to acquit their advances as at 31 December, 2015. My review of the PGAS Advances Registers revealed payments of travelling allowances and cash advances dated back to 2005 totaling K3,221,889 were also not acquitted as at 31 December, 2015. In addition, my further review of the expenditure ledgers revealed numerous payments of cash advances totaling K1,119,197 to officers during the year under review that had not been recorded and/or captured in the PGAS Advances Registers. Consequently, these payments of cash advances had not been followed up with the officers concerned for acquittal purposes.

- Lump sum payments as grants and subsidies and financial assistances to Non-Profit and Community Organizations, Churches and Individuals, except for Local-level Governments totaling K1,552,680 were made during the year under review. I noted no evidence to suggest the Provincial Government had put in place proper monitoring guidelines or mechanisms to ensure that funds had been utilized on intended purposes and/or properly accounted for by way of accountability reports from recipients.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I am not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the financial statements of New Ireland Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the Audit Act, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- The New Ireland Provincial Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act 1995*; and
- The receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*”.

6.15.2.2 Control Environment – 2016

The Management Letter relating to the audit of the internal control environment and accounts and records for the year ended 31 December 2016 was issued in May, 2017. The Management Letter contained control weaknesses as stated below:

Budgetary Control

- The *Provincial Appropriation Act 2016, No.01 of 2015* was passed by the New Ireland Provincial Assembly and certified on 16th of December, 2015 authorizing the estimates of revenue and expenditure totaling K257,897,800 for the year ended 31 December, 2016. The approved estimates of revenue and expenditure comprised of Internal Revenues of K112,517,000 and National Government Grants of K145,380,800. The Minister for Treasury however, had rejected the 2016 New Ireland Provincial Budget on the 07th of January, 2016 on the basis that the Provincial Government removes the outstanding MOA payments of K15,963,100 from the budget estimates as it was not part of the National Government allocation for 2016 Budget and had instructed that the budget be revised and resubmitted for approval. Again, in a letter dated 16th February, 2016, the Prime Minister and

Acting Treasurer had granted conditional approval on the 2016 New Ireland Provincial Budget albeit at the appropriated amount as approved by Parliament in November, 2015 and further instructed that the adjusted 2016 budget be resubmitted for approval;

- The audit was not provided a Revised Budget to suggest the Provincial Government had adhered to the above directives. However, the Provincial Government, in two separate letters dated 12 September, and 23 December, 2016 to the Minister for Treasury, maintained the formula used to derive the outstanding MOA payments were set by the NEC in a Decision No. 61/2002 and therefore, reaffirmed its position that the Minister needs to reconsider and make amends to grant full approval of the 2016 Budget for New Ireland Provincial Government. Audit however, did not sight evidence to suggest the Minister for Treasury had responded to the letters nor had granted full approval on the 2016 budget for New Ireland Provincial Government in accordance with Section 141(4)(b) of the Organic Law on Provincial Governments and Local Level Governments; and
- Furthermore, the audit review of postings of the appropriations presented as Current Appropriations in the expenditure ledgers report revealed the annual appropriation for Division 715 (Internal Revenues) as K112,501,000, a reduction of K16,000 from K112,517,000 while Division 287 (Grants) showed an appropriation of K145,452,165, an increase of K71,365 from K145,380,800 at year end. However, although the current appropriation from Grants was reported as K145,452,165, the expenditure ledgers also showed that only K16,260,500 of the Grants budget were released through Warrant Authorities and taken up in the ledgers. The late release of funds by the National Government has been one of the factors attributed in the shortfalls in grant receipts.

Cashbook and Bank Reconciliations

Prudent cash management practices are essential to reflect the Provincial Government's cash position or alternatively the fund balance at any point in time and to enable management to make prudent cash management decisions. The audit review of the bank reconciliation statements for New Ireland Provincial Government Operating Account and Provincial Government Grant Operating Account revealed that prudent cash management practices were lacking. The following observations were noted in respect of the Bank Accounts.

New Ireland Provincial Government Operating Account No. 1000687407

The bank reconciliation statement for December, 2016 showed a credit bank balance of K13,109,591, un-presented cheques totalling K11,641,301 and several reconciling items that had not been adjusted in the cashbook and respective revenue and expenditure ledgers and as a result, an unadjusted reconciled closing cashbook balance of K3,693,795 was shown as at 31 December, 2016. The unadjusted reconciling items identified in the bank reconciliation statement include:

- Un-deposited Revenue collections of K624,196 for the period 18th March, 2010 to 16th December, 2016. Audit was not provided evidence to indicate that the outstanding receipts had been investigated and appropriate recovery actions taken against the accounting officer(s) concerned;
- Dishonored cheques of K50,212 and bank debits relating to bank fees and service charges totalling K179,137 not taken up in the cashbook dated back to April, 2010 and December, 2011. There was no evidence to suggest that appropriate action had been taken to recoup the value and fees incurred in respect of the dishonored cheques from the drawers concerned and also to identify and clear the relevant bank fees and charges accordingly;
- Under banking of revenue collections totalling K22,921 dating back to 2011 remained outstanding. Audit sighted no evidence to indicate the outstanding receipts should also have been investigated and appropriate recovery actions taken against the accounting officer(s) concerned. Further, over banking of moneys dating back to 15 December, 2011 totalling K28,819 continued to be shown in the bank reconciliation statements;
- Schedule 5 of the bank reconciliation statement showed cheques on bank statements not in cashbook totalling K257,306. The cheques were referred to as invalid cheques or cheques incorrectly debited to the Provincial Government Operating Account. Audit sighted no evidence to suggest the circumstances surrounding the presentation of these cheques at the bank had been investigated to ascertain their genuineness and validity as these cheques may have been fraudulently negotiated;
- Other debit and/or credit Items dating back to 2010 and 2012 shown in Schedules 6 and 11 of the bank reconciliation statement totaling K30,006,584 and K1,756,429 respectively which may have been related to other bank accounts had not been identified and communicated to the bank for necessary and prompt adjustments;
- The Provincial Treasury Office did not take appropriate action to identify and record the direct bank deposits dating back to 2015 totaling K27,129,602 in the cashbook resulting in the material understatement of cash book balance to that extent; and
- The un-presented cheques as per the Cheque Reconciliation Listing as at 31 December, 2016 totalling K11,641,301 included one thousand three hundred and ninety stale cheques totalling K5,553,741 dating back to 2008 but continued to be shown as un-presented.

New Ireland Provincial Government Grant Account No. 1001689878

The audit review of December, 2016 bank reconciliation statement showed the Grant Account held a credit closing bank balance of K16,594,842, un-presented cheques totaling K7,191,963 with several reconciling items that had not been adjusted in the

cashbook and respective revenue and expenditure ledgers and as a result, an unadjusted reconciled cashbook balance of K582,145 was shown as at 31 December, 2016. The unadjusted reconciling items appearing in the bank reconciliation statement included:

- Receipts that had been taken up in the cashbook but not in bank statements (not banked) dated back to 2010 totalled K2,585;
- Dishonoured cheques dating back to 2012 totalled K2,618;
- Debits in the bank statement and not in the cashbook dated back to 2011 totalled K19,291;
- Under-banking of revenue dated back to 2014 totalled K2,441;
- Other incorrect debit items in the bank statements and incorrect journal entries debited to the cash book shown in schedule 6 amounted to K6,397,164 and dates back to 2011;
- Other credit Items of K93,871 per Schedule 11 dating back to 2012;
- The Provincial Treasury Office did not take appropriate action to identify and record in the cashbook direct bank deposits totalling K15,150,961 thereby resulting in revenue being materially misstated at year end; and
- The un-presented cheques totalling K7,191,963 as at 31 December, 2016 included four hundred and seventy-three stale cheques totalling K3,920,191 dated back to 2010 that had gone stale but continued to be shown as un-presented. Furthermore, the bank reconciliation statement showed un-presented cheques as K7,191,963 while the Cheque Reconciliation Listing showed the un-presented cheques as K7,192,962 resulting in a difference of K999.

Revenue Management

Revenue Analysis

- The review of revenue ledgers maintained at the Provincial Treasury Office revealed that NIPG had received and recorded revenue totaling K1,874,200 in National Government Grants against the anticipated annual total of K145,380,800, a significant under receipt of K143,506,600 (98.7% under receipt) whilst internal revenue collections showed a total of K38,577,370 against the anticipated estimated total of K112,517,000, a significant under collection of K73,939,630 (65.7% under receipt);
- Audit noted however, the total reported actual receipts from Grants and Internal Revenues are misleading as a result of the revenue ledgers not being promptly updated. *Schedule 7* of the December bank reconciliation statement showed revenue collection totaling K20,532,221 in 2016 that had not been recorded in the

cashbook and respective revenue ledgers for the Provincial Government Operating Account and K8,250,960 for the Grant Account. The delay in taking up the revenue receipts in the respective revenue ledgers will have the potential to impact the completeness, accuracy and reliability of Statement 'J' and related Statement 'B'.

- Further, the significant short fall in estimated internal revenue collections indicates the inability of the Provincial Government to prepare sound and prudent revenue forecast. It also indicates a lack of co-ordination and co-operation between the Provincial Revenue Unit and other line economic Divisions of the Provincial Government to effectively plan and direct their efforts and course of action to maximize the collection of internal revenues while late release of funds by the National Government has been one of the factors attributed in the shortfalls in grant revenues.

Collections and Banking (Internal Revenue)

The audit review of controls, records and documents relating to revenue collection, banking and safe custody of public monies had identified the following issues:

- Prudent cash management practices was acutely lacking at the Provincial Treasury Office. The duties performed by the Receiver of Public Moneys involving revenue collection, banking and compiling of collector/receiver statements were not checked and certified by a competent authority (Accountant) including independent and surprise cash counts to ensure all revenues are brought to account and banked intact. As a result, the audit review of selected random sample of Collectors Statements, official receipts, deposit slips and bank statements for the Provincial Government Operating Account revealed inordinate delays in banking of revenue collections ranging from one (1) day to fifteen (15) days. Such delays may result in cash collections being tampered with or stolen if not banked promptly on a daily basis.
- Further, *Schedule 1* of the December bank reconciliation statement of the Provincial Government Operating Account showed receipts dated back to 2010 totalling K624,196 and recorded in the cash book had not been deposited into the bank account whilst *Schedule 3* showed under banking of daily collections totalling K22,921 dating back to 2011. This indicates serious weaknesses and breakdown in internal controls over revenue management.

Paid Accounts

The audit review of controls surrounding the payment of accounts had revealed lack of compliance with procurement and payment procedures due to the following discrepancies:

- The Instrument of Appointment kept by the Senior Examiner at the Provincial Treasury Office only had the specimen signatures of the appointed financial

delegates and Section 32 Officers without specifying their financial limits for purposes of approval of expenditures;

- The appointed Section 32 Officers failed to disclose their designations and financial limits on the Requisitions for Expenditure (FF3) in many instances when approving requisitions to incur expenditure which made audit unable to verify whether the approval for expenditure are within their delegated financial limits;
- Payments were effected in most instances without proper examination and certification of claims by the Examiner and Certifying Officer for legitimacy, accuracy and completeness of the requisitions for expenditure;
- in numerous instances, payments for office stationeries and operational materials and supplies were not supported with valid receipts and goods delivery dockets from Suppliers to confirm actual receipt of the goods by an independent officer. This exposes serious risks that goods may have not been purchased and delivered but money may have either been reimbursed to officers involved with the purchases by the suppliers or used for other purposes for personal interest. Some shops are known for en-cashing cheques and therefore, may create avenues for fraudulent activities by dishonest staff;
- Excessive payments for flex cards intended for office use totalling K53,559 were noted whilst the Provincial Government also has access to landline telephones;
- Payments for reimbursement claims from various individuals for use of personal monies to conduct official business on behalf of the Provincial Government totalling K298,095 were not supported with prior written approval from appropriate authorities;
- Reimbursement of funds for unbudgeted expenditure were also made to Public Works New Ireland Limited for supply of diesel to Konos and Namatanai power houses (K775,039), New Ireland Development Corporation for facilitating the PEC Meeting in Port Moresby, Alotau, Lae, Wewak and Mount Hagen (K185,547) and Old Aged & Disable Account for the Punam ground breaking ceremony (K177,500);
- Funds intended for 2016 program activities totalling K1,314,942 were paid out as advances to New Ireland Development Corporation in order to facilitate the payments in respect of Realignment of Top Management positions salaries and allowances (K304,942), NGI Autonomy Forum (K100,000) and NIPG Representatives Projects (K910,000) in early 2017. Such practices of transferring funds to a third party to facilitate payments on behalf of the Provincial Government are improper and amounts to misapplication of funds;
- Advance payments totalling K863,791 were also made to various service providers whilst internal controls over maintenance of creditors ledgers and proper acquittal and reconciliation of accounts was lacking;

- Further, a total of K195,572 was paid to Air Niugini prepaid account as advance payments for airfares for official travels. The acquittal and reconciliation report for this account was not provided to audit although requested;
- The Provincial Treasury Staff were each paid K2,000 adding up to K20,000, in total for their work done during the close of accounts period. The payments are excessive and wastage of public monies as these Officers are public servants who receive fortnightly salary for the duties performed. If they work overtime during that period, then they should claim for overtime;
- Payments for fuel usage and/or consumption by the Provincial Government for the year amounted to K1,951,717. The risk of misuse and abuse of public funds is very high in this area;
- Expenditures totalling K5,934,556 were not paid under the correct vote item and activity that was budgeted and approved for. For instance, a total of K300,000 was budgeted for payment of outstanding HDA for officers, however, the funds were diverted and paid for other services totalling K291,741;
- A double payment of K13,545 was made to Aulson Construction. The payment for the same invoice was already made on 19/10/16. This payment was confirmed by the Certifying Officer as a double payment; and
- Cash handling fees of K146,622 was charged by BSP for huge amount of encashed cheques made payable for old aged and disabled payments totalling K8,096,720 which is noted to be extravagant and wastage of public monies.

Capital Works and Maintenance

- PNG SJ Constructions Limited was engaged by New Ireland Provincial Government on upgrading and sealing of Lanzarote Highway from Punam to Manmo (80Km). The Provincial Supply and Tenders Board had issued a Certificate of Inexpediency authorizing the expenditure of K4,983,313 for the project. Based on payment records and documents provided to audit, the contractor was paid K5,790,743 in total, after certificates of completion were issued for work done on each of the three stages of the project. The following discrepancies were noted in respect of this expenditure:
 - Proper procurement and tender procedures and guidelines were not followed in awarding the contract to PNG SJ Constructions Limited. As a result, neither the expenditure of K4,983,313 was referred to the Provincial Authority to Pre-Commit Committee (PAPCC) to endorse the commitment of funds and make recommendations to the PS&TB for their approval to incur the expenditure;

- The Certificate of Inexpediency authorizing the expenditure of K4,983,313 was signed only by the acting Provincial Administrator without the other Board members;
 - The Secretary for Works in a letter dated 21 April, 2016 had stated, ‘the contractor PNG SJ Construction Limited was recommended by the Governor and its Provincial Executive Council (PEC) as a reputable company with vast experience and resources capable of delivering the road project to standard and value as estimated’ hence, culminating in the selection of the preferred contractor; and
 - Payments to the contractor totalling K5,790,743 exceeds the authorized expenditure of K4,983,313 as the contract value. The over expenditure of K807,430 was not approved by the Provincial Supply and Tenders Board;
- Public Works New Ireland Ltd was sanctioned to receive funds from the Provincial Government and to participate in the management and implementation of capital works and maintenance projects on behalf of the Provincial Government and charges a management fee of 5% on the total project costs. Public Works New Ireland limited, as the project manager, had engaged a contractor namely; PNG SJ Construction Limited on upgrading and sealing of Burukalai Junction to Tubuana Junction Road in the Namatanai District. This project was not funded in the 2016 Development Budget as it was marked as a Newcrest Mining Limited Tax Credit Scheme Program. However, due to a dispute, the PWNIL engaged the contractor to commence work. A payment of K3,405,969 which includes 5% for Retention/GST (K162,189) and Management Fees (K162,189) was paid to PWNIL on. There was no evidence to suggest proper tender procedures and guidelines were followed leading to the award of the contract to PNG SJ Construction Limited. Further, since this project was not funded in the 2016 budget, the project expenditure of K3,405,969 was paid from funds intended for Bopire Town Development, (K3,000,000) and Ward Level Projects, (K405,969) respectively. Also, audit could not ascertain whether or not the Provincial Government had been reimbursed the project funds of K3,405,969 under the Newcrest Mining Limited Tax Credit Scheme Program;
 - Hardware Haus was selected as the preferred supplier to supply 50,000 sheets of corrugated roofing iron intended for the Provincial Government’s “Roof Over the Head Policy” at a contract value of K2,447,500. The previous supplier in 2015 was Rabaul Metal Industries. Hardware Haus was paid K1,223,750 from former years rollover funds which was intended for Island Ring Roads. There was no evidence to suggest the Provincial Government had sought the required three written quotations from two other suppliers as Hardware Haus had been selected as the new supplier and neither the contract value of K2,447,500 was sanctioned by the Provincial Authority to Pre-Commit Committee (PAPCC) nor the award of contract was approved by the Provincial Supply and Tenders Board. Furthermore, the payment voucher with the supporting tax invoice was not certified by the co-

ordinator of the program to confirm the correct quantity of roofing irons had been received and were delivered in good order; and

- Payments totalling K265,056 were made to three private contractors namely; Havton Builders (K55,477), Northsea Engineering Services (K63,959) and Aulson Construction (K145,620) who were engaged on minor capital and maintenance works. Audit noted however, the claims presented for payment were not supported by work in progress reports and/or certificates of completion duly certified by a competent technical officer of the Provincial Government to indicate the capital and maintenance works undertaken had been satisfactorily executed and that the payments were proper.

Provincial Supply and Tenders Board

- The Instrument of appointment of the Chairman and Members of the New Ireland Provincial Supply and Tenders Board was not made available for audit review. Perusal of the Meeting Minutes shows there were inconsistencies involving representation of board members at the PS&TB meetings. The Provincial Supply and Tenders Board is a statutory unit of the Provincial Government and it is recommended that the appointment of the Board members be formalized and instrumented in line with provisions of the Public Finances (Management) Act;
- Based on records and documents provided to audit, the New Ireland Provincial Supply and Tenders Board had convened seven meetings during the year under review. Audit noted however, the PS&TB Secretariat did not maintain proper records of meeting minutes and as a result, the minutes relating to Board Meetings No. 02 of 2016 to 05 of 2016 and 07 of 2016 were not signed by the Chairperson of the Provincial Supply and Tenders Board. The unsigned meeting minutes may render important resolutions involving financial considerations sanctioned and approved by the Board null and void;
- Perusal of Provincial Supply and Tenders Board Meeting Minutes of Meeting No. 07/2016 revealed the meeting was presided by the Advisor to the Government (ex-officio member) other than the Acting Provincial Administrator as the Chairperson with only three members of the Board in attendance while the Chairman and four other members were unavailable for the meeting. This meeting with only four members in attendance had however, approved the award of contracts as follows:
 - Project No. NIPG-47PH-16BC03 – Supply and Construction of Tinkoris Health Centre to China Harbour Engineering Company (CHEC) for a contract sum of K1,675,867;
 - The Utu High School Classroom Project was awarded to a contractor namely, Kodro with no contract value disclosed; and
 - The Board endorsed the payment of supervision fee of 5% from the Lanzorette Highway Project to Department of Works.

In view of the above audit observations, the decisions passed by the PS&TB at this meeting may be null and void due to lack of quorum and improper appointment of the Chairperson;

- The New Ireland Provincial Supply and Tenders Board did not maintain a Tenders Register to record information on tender invitations, quotations received and tender evaluations leading to the selection and approval for the award of contracts to successful bidders. In the absence of a Tender register and proper records of project descriptions, documentation and tender evaluations, audit was unable to assess the efficiency and effectiveness of the Provincial Supply and Tenders Board in awarding contracts for and on behalf of the Provincial Government. Furthermore, the New Ireland Provincial Supply and Tenders Board did not have in place a competent Tender Evaluation Committee to screen, evaluate and recommend to the Board for their deliberations and considerations with such specific information on suitable bidders for the jobs/contracts tendered based on their company profiles, expertise and financial background, etc;

Advances Management

Proper monitoring and recovery exercises on traveling allowances and cash advances were lacking. The following issues were identified by audit:

- A review of the expenditure ledgers revealed numerous large amounts of payments of cash advances totalling K595,363 and travel allowances totalling K327,557 to officers during the year under review that had not been recorded and/or captured in the PGAS Advances Registers. Consequently, these payments of material amounts were not followed up with the officers concerned to provide their acquittals which expose the risk that these cash advances may not be utilized on purposes intended;
- The PGAS Advances Registers for both NIPG Operating Account and NIPG Grant Account had not been updated on a current basis. The NIPG Grant Account Registers did not show any postings or records of payments of travelling allowances and cash advances to officers from prior years up to 2012 as well as 2015 whilst the NIPG Operating Account Registers did not show any postings or records of payments of travelling allowances and cash advances to officers in 2015. Due to incompleteness of the PGAS Advances Registers, no reliance could be placed on the accuracy of the reported total un-acquitted advances as at 31 December, 2016;
- Except for the payments made during the year under review totaling K250,000 , prior years cash advances totaling K2,144,399 (2014 - K1,025,202) and (2015 - K1,119,197) remained un-acquitted as at 31 December, 2016. Audit sighted no evidence to suggest either the Provincial Treasury Office nor NIPA Management had taken appropriate recovery actions against officers concerned to acquit the outstanding cash advances; and

- Perusal of the acquittal files revealed that the acquittals were supported with manual receipts however, it was observed in most instances, the manual receipts issued were in the order of sequential numbers which indicates the manual receipt books were maintained by the cash advance holders hence, are not valid receipts that were issued by suppliers or recipients. Further, the amount of expenses acquitted K106,269 while the cash advance paid was only K100,000 and the acquittals included two cheque payments of K5,120 and K4,900 as part of the acquittal for the cash advances paid while a total of K2,289 was not supported by valid official receipts.

Assets Management

Effective assets management would contribute to better service delivery while proper asset control and monitoring would prevent fraudulent use of assets for personal gains and theft. The New Ireland Provincial Government held extensive portfolios of fixed assets under its ownership. The audit review of fixed assets register, motor vehicle fleet register and other relevant records maintained by the Housing and Assets Unit revealed lack of proper assets management controls and practices as identified by the following issues:

- The procurement of fixed assets was not centralized and controlled by the Housing and Assets Unit as all Divisions were procuring their own asset requirements;
- The Fixed Assets Register lacked complete, accurate and descriptive information such as the purchase price, date of purchase of each asset item and were not properly classified under the different assets category such as Motor vehicles, Land and buildings, Marine Vessels, Plant and Equipment, Office Furniture and Equipment, etc. The assets register also did not disclose details and values of fixed assets such as land and buildings that were purchased, built, donated or whereby the ownership of such assets had been transferred to New Ireland Provincial Government. A review of cashbooks and expenditure ledgers revealed the Provincial Government purchased several fixed assets worth K2,054,971 including motor vehicles at a total cost of K1,494,675 during the year that could not easily be identified as having been recorded and accounted for in the fixed assets register.

Other information relating to dates of disposal and values of assets disposed through tender processes were not disclosed in the Fixed Assets Register. Audit noted total receipts of K55,000 as revenue received from disposal of Provincial Government assets during the year;

- The Motor Vehicle Fleet Register was not made available for audit examination. In the absence of the Motor Vehicle Fleet Register, audit could not ascertain whether purchases of motor vehicles at a total cost of K1,494,675 during the year had been recorded and accounted for in the register; and

- There was no stock-take reports provided to audit to show the Housing and Assets Unit had conducted periodic stock-takes to physically verify the existence, conditions and ascertain the value of fixed assets held under ownership of the Provincial Government at the end of each stock-take period or year end.

Grants and Subsidies

The Provincial Government had paid as grants, subsidies and financial assistances to Local Level Governments, Non-profit Organizations, Churches, Old Aged and Disabled Persons and Education Subsidy during the year under review totalling K19, 031,922 as stated below:

	<u>K</u>
➤ Old Aged and Disabled Persons	8,096,720
➤ Churches	3,608,375
➤ Other Organizations	3,960,757
➤ Education Subsidy – Schools Rations	1,697,480
➤ Education Subsidy – School Fees	<u>1,668,590</u>
Total	<u>19,031,922</u>

Except for Local Level Governments who could disclose their receipts and expenditure of grant funds in the annual financial statements, accountability reports from other recipients were poorly monitored by the Provincial Government to ensure that grants/financial assistances provided were used for the purpose intended. The absence of guidelines and procedures governing the usage of grant funds also contribute to lack of and/or monitoring of funds paid.

Trust Funds

- The audit review of PGAS trust ledgers revealed existence of two non-bank Trust Suspense Accounts namely, the Provincial Government Operating Account Trust Suspense ledger and Provincial Government Grant Account Trust Suspense ledger. The former showed the opening balance of K2,457,617(overdrawn), receipts and payments of K14,095,614 and K13,946,717 respectively with a net closing balance of K2,308,720 (overdrawn) while the latter showed the opening balance as K15,089,289 (overdrawn), and receipts and payments of K797,057 and K811,538 respectively with a net closing balance of K15,103,770 (overdrawn) as at 31 December, 2016.

Audit understands the Suspense Accounts are maintained to record transactions which need to be adjusted to their correct accounts after having been identified and therefore, the trust suspense accounts should have shown a nil balance at the end of the year. The respective overdrawn closing balances at year end of K2,308,720 and K15,103,770 are an indication of unbudgeted expenditures that had been inappropriately charged to these accounts without proper authorization and therefore, prone to the risk of misappropriation or misapplication of public funds if undetected;

- The New Ireland Provincial Government had also administered independently four Trust Accounts with bank accounts operated with Provincial Government funds apart from the Provincial Government Operating Account and Provincial Government Grant Account. These four Trust Accounts were identified as; MRDC Project Trust, Old Aged and Disability Account, Roof Over Head Account and Provincial Fuel Service Station Account. The AGO was not provided evidence of formal trust instruments or approval granted by appropriate authorities to ascertain the legality, validity and appropriateness of the transactions effected through these bank accounts and therefore, may be illegally in operation;
- Furthermore, audit was not provided the cashbooks, bank reconciliation statements and other related records maintained to record and account for receipts and expenditure of funds during the year in respect of the three bank accounts, except for the MRDC Project Trust account. The audit review of the bank reconciliation statement compiled in respect of MRDC Project Trust account revealed the K10,000,000 of PSIP funds for 2015 was transferred to this account on the 30 August, 2016 and remained in the account at the time of audit in March, 2017. The transfer of PSIP funds into MRDC Project Trust bank account is in violation of the Administrative Guidelines on PSIP, DSIP and LLGSIP issued by the Department of Implementation and Rural Development and relevant Finance Instructions issued from time to time by the Department of Finance; and
- The ledger account maintained for the MRDC Project Trust Account showed a closing cash balance of K44,354,892 as at 31 December, 2016 and a closing bank balance of K25,575,023 as at 09 December, 2016. The bank statements as of 10 December, 2016 to 31 December, 2016 were not made available for audit examination to ascertain the closing bank balance at year end.

Audit was informally advised that the Provincial Administration was in the process of conducting a proper investigation into the operations of these non- bank trust accounts with a view to closing the accounts.

Human Resources Management

The audit review of New Ireland Provincial Administration manpower and related records pertaining to payments of salaries, wages and allowances identified the following issues:

- Relevant registers and records relating to the Man Power including Staff Establishment Register; Manpower Reconciliation Reports; Payroll Registers for number of pay periods; approved ceiling with detailed listing of casual employees; Payroll Reports for the casual employees and Assembly Members; and detailed list of consultants engaged by the Provincial Government and copies of their Contracts of Employment were not provided for my review to ascertain whether or not the manpower and payroll matters were effectively managed and that, the total number of Staff on Strength are within the manpower and approved and budgeted ceiling;

- The Alesco Human Resources Management System Monthly Budget and Year - to - Date Report showed a total expenditure on salaries and allowances as K58,865,002 against the annual budget appropriation of K74,341,600 with an under expenditure of K15,376,598;
- The Alesco Human Resource Management System Monthly Costing and Year - to - Date Report on pay period 26 of 2016 showed total number of staff on strength as 451 with a year to date salaries and allowances expenditure of K14,649,147 against the NIP Staffing Grant Appropriation of K25,179,147. The Report also showed year to date expenditure balances of K18,415 and K237,220 described as 'Unknown'. The items relate to overtime and gratuity expenditures and therefore, these payments may have been processed through the payroll system without availability of funds to cater for such expenditures. There were no reports or related records provided to ascertain the total number of staff on strength on the NIP Teachers' Salaries payroll at year end;
- The expenditure Summary Reports in respect of salaries and allowances as well as wages for casual employees engaged by the Provincial Government and Provincial Assembly Members that were processed through the Kundu Pay System showed a year to date total expenditure of K6,296,185 in excess of actual amounts released through Warrant Authorities and CFCs issued under totalling K5,033,500 by K1,262,685. Casual employees payroll not processed through the PGAS payroll and therefore, the payroll expenditures processed through the Kundu Pei System have not been posted and/or captured in the PGAS expenditure ledgers under the respective expenditure votes. Processing of payroll outside of the system is considered to be improper;
- Audit noted expenditures unrelated to salaries and wages processed through the Kundu Pei banking system totalling K6,296,185 of which amounts totaling K752,867 also did not have proper approval through Requisitions for Expenditure;
- The Provincial Government uses the Alesco Electronic Data Entry System to transmit the fortnightly payroll for processing through the Concept Payroll System administered by the Department of Finance. Audit was informed by HR staff that they have access to payroll data input only while access to printing of the Alesco reports is restricted by Department of Finance in Waigani. As such, fortnightly payroll and budget reconciliations reports and reviews could not be performed to ensure that only NIP Staff on the Establishment Register are paid through the Alesco Payroll and that the salaries expenditure is within the approved budget estimates; and
- There is no restriction or very limited control over the payroll data entry or input points into the Alesco HRM System. Currently, there are two data entry points which are; New Ireland Provincial Government and Department of Finance. As such, the Provincial Government is exposed to a high risk of payroll data manipulation such that unauthorised payments could be processed at different data

entry/input points if undetected resulting in significant over expenditures on salaries and allowances.

Corporate Governance

The New Ireland Provincial Government's three year Corporate Plan (2013 – 2015) had lapsed at the end of 2015. There was no evidence nor any explanations provided to suggest the Provincial Administration had taken appropriate action(s) in developing a new Corporate Plan for 2016 and beyond.

Provincial Assembly/PEC Meeting Minutes and Enacted Legislations

The Provincial Administration did maintain adequate records of Assembly and Provincial Executive Council (PEC) Minutes as well as gazettal records of legislations passed and enacted by the Provincial Assembly. A review of the Provincial Assembly and PEC meeting minutes revealed:

- Four scheduled Provincial Assembly meetings convened during the year;
- Twenty-one PEC meetings with one hundred and sixty-six Decisions passed during the year; and
- Five Legislative Bills passed by the New Ireland Provincial Assembly during the year.

Internal Audit

The Internal Audit Unit (IAU) is a key administrative function that oversees the effectiveness of other functions and internal controls within the administration. An effective Internal Audit Unit provides assurance and instills integrity in the internal controls that management established to rely on. As reported in my previous Reports, the IAU had been without a Chief Internal Auditor following the retrenchment of the former towards the end of 2013 without any new appointment as at the time of audit in March, 2017 hence, it did not have in place a functional Internal Audit Unit. This indicates a major control weakness – in essence the reliability of various management systems established to deliver basic services.

6.15.2.3 Management Response

The above observations had been communicated to the Provincial Administrator and the Management by way of a Management Letter together with recommendations for improvement. I had however, not received a response to the Management Letter at the time of preparing this Report in September, 2017.

6.15.2.4 Status of Financial Statements

At the time of preparing this Report in September, 2017 the New Ireland Provincial Government had not submitted its financial statements for the year ended 31 December, 2016 for my inspection and audit.

6.15.3 Kavieng Urban Local-level Government

The Kavieng Urban Local-level Government had submitted its financial statements for the years ended 31 December 2013 and 2014 for my inspection and audit. Field work associated with examination of the financial statements and audit of the accounts and records was completed with both the Management Letters and Audit Opinion Reports issued. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.15.3.1 Comments on Financial Statements - 2014

My reports to the Minister concerned and other relevant bodies under the *Organic Law and Audit Act* on the Kavieng Urban Local-Level Government's financial statements for the years ended 31 December, 2013 and 2014 were issued on 21st June, 2017. The Reports contained similar Disclaimer Audit Opinions hence, only the 2014 report is reproduced as follows:

Basis for Disclaimer Audit Opinion

Disclosure Errors

I noted the following disclosure errors which could have material effect on the accuracy, completeness and reliability of the financial statements of the Kavieng Urban Local Level Government Account balances and consequently, the financial position as at 31 December, 2014:

Cash Balances

The Kavieng Urban Local Level Government Account balance of K463,381 disclosed in Statement "A" as represented by closing reconciled cash balance of the Operating Account of K463,381 as at 31 December, 2014 is confirmed as correct with the corresponding books of records.

Receipts and Payments

Statement "B" presented total revenue and expenditure as K928,181 and K865,581 respectively with an operating surplus of K62,600. However, there were reconcilable items relating to receipts and expenditure that were not adjusted in the cashbook and relevant revenue and expenditure ledgers and disclosed in Statements "J" and "K" that may have affected the accuracy of the total receipts and payments and therefore, the stated operating surplus of K62, 600 at year end.

Fixed Assets

Appendix 4 to the financial statements did not disclose any information on the value of fixed assets as owned by Kavieng Urban Local-level Government. The Kavieng Urban Local Level Government had not maintained a proper Assets Register neither the records of periodical stock-take of assets by management verifying the existence, conditions and value of fixed assets. Consequently, I was unable to determine whether all fixed assets purchased during the year and those of prior years had been recorded and properly accounted for nor could I ascertain the value of fixed assets held under the custody and ownership of the Urban Local-level Government at year end.

Other Records and Registers

Several other documents corroborating the financial statements, such as the registers of investment, inventory, debtor and borrowings, commitments & arrears, and losses & deficiencies were not maintained hence, not available for my review. Consequently, I could not ascertain the existence, completeness and accuracy of these items in the financial statements.

Significant Control Weaknesses

Below is a summary of significant control weaknesses identified in the Kavieng Urban Local Level Government's internal control environment:

- The revenue collections for Kavieng Urban Local-level Government were not banked promptly and intact on a daily basis. I observed that the revenue collections from February, 2014 to April, 2014 were retained and subsequently banked on April, 2014. The prolonged and inordinate delays in banking or revenue collections were due to unauthorized practices of advancing cash as loans to employees as well as meeting various operational expenses;
- Kavieng Urban Local level Government had made a part payment of K200,000 to Boroko Motors out of a quoted price of K265,000 for the purchase of an Isuzu NPR Garbage Compactor Truck. I did not sight evidence of at least two additional competitive quotations to that effect. Further, I observed the Project Formulation Document provided as the supporting document intended to seek endorsement for the purchase of asset was not sanctioned and signed by the Chairperson of Kavieng Joint District Planning and Budget Priorities Committee;
- As reported in my previous reports, Section 32 Officers failed to disclose their financial limits on the Requisition for Expenditure (FF3) when approving requisitions to incur expenditures in most instances. Consequently, I was unable to verify whether the approvals for expenditures were within their delegated financial limits;
- I sighted no evidence to suggest the claims presented for payment were registered and dated, verified, signed by the claims examiner and duly certified by the District Treasurer other than the duly appointed certifying officer;

- Financial assistances totaling K8,500 were paid directly to recipients however, without proper accountability reports from recipients to ensure that grants/financial assistances given were strictly used on the intended purposes. Further, I sighted no evidence to indicate existence of guidelines and procedures governing the usage of grant funds during the year; and
- Proper monitoring and recovery exercises on travel and cash advances was lacking resulting in advances totaling K65,246 paid to officers dating several years back, remained un-acquitted as at 31 December, 2014.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I am not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the financial statements of Kavieng Urban Local-level Government for the year ended 31 December, 2014.

Other Matters

In accordance with the Audit Act, I have duty to report on significant matters arising out of the financial statements to which the report relates. The following are matters of significance:

- The Kavieng Urban Local Level Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act 1995*; and
- The receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*”.

6.15.3.2 Status of Financial Statements

The Kavieng Urban Local-level Government (ULLG) had not submitted its financial statements for the years ended 31 December, 2015 and 2016 for my inspection and audit at the time of preparation of this Report in September, 2017.

6.15.4 Kavieng General Hospital

The Kavieng General Hospital had not submitted its financial statements for the financial years ended 31 December, 2013 and 2014 respectively. Fieldwork associated with the internal control environment were however, completed without the financial statements and Management Letters for both years issued in August, 2016.

6.15.4.1 Control Environment – 2014

The Management Letters relating to the audit of the accounts and records for the years ended 31 December, 2013 and 2014 were issued in August, 2016. The Management

Letters contained similar issues hence, only the 2014 Management Letter is reproduced as follows:

Audit review of the Accounting System and Internal control Procedures revealed the following issues:

Accounting System

The Attaché and/or MYOB Accounting Software introduced to most Hospitals was however, not used by Kavieng General Hospital to produce accurate and reliable financial reports. As such, Cash Receipts and Payments were not systematically processed through the General Ledgers in order to ensure that all Expenses, Income, Assets and Liabilities are properly brought to account for purposes of accuracy, classification, completeness and materiality in conformity with Accepted Accounting Standards and Practices.

Financial Management Processes

- Apart from the Public Finances (Management) Act, 1995, a documented internal Finance and Administration policies and procedures that adequately encompass all of the Hospital's financial management activities and appropriately specify internal control mechanisms was not formulated to assist as a tool in ensuring that the procurement of goods and services are within the set policies and guidelines of the Hospital. The absence of such internal finance and administrative policies and procedures may have attributed to the inability of the Hospital in complying with proper procurement and payment procedures; and
- Control over decision making within the Hospital Management for financial matters appears to be strictly withheld between the Chief Executive Officer (CEO) and the Director for Corporate Services (DCS). There was no formal appointment of Requisitioning Officers, Financial Delegates, Examiners, Certifying Officers and Receiving and Paying Officers. If there was (if any), these appointments were not properly documented and kept on file and made available to audit. Unauthorized Officers may be approving expenditures and if signatures are forged, it may not be easily detected.

Books of Accounts and Records

Basic Accounting Records and Registers such as Cash Books, Revenue and Expenditure Ledgers, Bank Reconciliations, supporting documents of Paid Vouchers, Official Receipt Books, Bank Statements, Assets Register, Debtors and Creditors Ledgers, Advances Register and Investment Register that are required to be kept or caused to be kept to meet statutory requirements for financial accountability and audit purposes were not adequately maintained by the Hospital.

Budgetary Control

Management of financial resources allocated and generated by the Hospital should aim at economical means of achieving the goals and objectives within the limit of allocated funds. Audit review of the budgetary control procedures in place at the Hospital revealed the following issues:

- The National Department of Health approved the estimates of revenue and expenditure for Kavieng General Hospital for the fiscal year ended 31 December, 2014 as K12,518,600 from the initial budget estimate of K20,166,867 that was submitted by the Kavieng General Hospital. The Appropriation of K12,518,600 consisted of the allocation of K8,593,500 for Personnel Emoluments while K3,925,100 was allocated for operational expenses. The audit review of the commitment ledgers maintained however, showed the Hospital had received funds released through CFCs totaling K6,816,700 and incurred expenditure of K5,807,154 hence, resulting in an under expenditure of K1,009,546. The total receipt of funds and expenditure excludes the Public Servants' salaries and allowances appropriation of K7,285,300 which had been retained and administered by Department of Health;
- Audit also noted the Hospital had received increased funding totaling K1,583,400 in respect of seven expenditure vote items as shown below:

Expenditure Vote Item	Appropriation	CFC Allocation	Excess
Wages	488,200	688,200	200,000
Overtime	90,000	290,000	200,000
Travel & Subsist	100,000	150,000	50,000
Office Mat & Supplies	100,000	150,000	50,000
Operational Mat & Supp	550,000	600,000	50,000
Other Operational Exp	400,000	1,233,400	833,400
Retire Benefits, Pens & Gratuity	280,000	480,000	200,000
	2,008,200	3,591,600	1,583,400

Related documents such as the revised Appropriation Act which should take into account such increases to the original appropriations were not provided for audit examination. Consequently, audit was unable to ascertain whether or not the increases were within the limits of the Appropriation Act and that the increases were approved by the Secretary for Department of Health;

- Section 3(c) of the Revised Hospital Fees Trust Instrument requires the Hospital to prepare and present the budget on the receipts and application of the Hospitals Fees Trust Account Funds. No such budget was prepared to show for the estimates of anticipated internal revenue sources and corresponding expenditure; and
- Section 2(c) (i) to (vi) of the Revised Hospital Fees Trust Instrument clearly sets out the purpose and procedural guidelines pertaining to the receipts and expenditures to be incurred from the Trust Account. Audit noted instances of operational expenses totaling K158,720 related to wages (K2,337), salary advances

(K11,100), cash and travel allowances(K8,841), accommodation and vehicle hires (K39,330) and other unrelated operational expenses (K97,112) paid out of the Hospital Fees Trust Account contrary to Revised Hospital Fees Trust Instrument. These payments should have been paid out from funds of the Hospital Operational Account.

Bank Accounts, Cash Book and Bank Reconciliation

Prudent cash management practices are essential to reflect the Hospital's cash position or alternately the fund balance at any point in time and to enable management to make prudent cash management decisions. A review of the cash books, bank reconciliations, bank statements and other related records pertaining to bank accounts administered by the hospital during the year under review revealed the following:

- The Hospital conducted its banking activities through Westpac Bank (Kavieng Branch). During the year, the hospital was noted to have operated the following bank accounts; the KGH Operating Account, Trust Account and Vehicle Saving Account.
- The books of accounts of the Hospital Operating Account and Hospital Fees Trust Account were maintained through manual commitment ledgers and computer cash books using the Microsoft Excel Program. As highlighted in previous Management Letters, the Microsoft Excel Computer Program used for maintaining the cash books has limitations in its capacity to generate other financial reports such as revenue and expenditure statements, trial balance, periodic reports and bank reconciliations as it was not linked to the corresponding ledger accounts.

Adjustment of Transactions

The Kavieng General Hospital did not follow proper accounting standards and practices by utilizing journal entries as the source document using the double entry accounting principle to account for adjusting transactions of revenue and expenditure items in updating the cash book and corresponding ledger accounts. Audit noted that the inability to raise journal entries was due to the following factors:

- Sub-ledgers were not maintained and as such there is no link between the cash book and ledger accounts;
- Official Receipts were not issued to document the receipt of National Grants remitted through the hospital's main operating bank account;
- Unbudgeted expenditure items such as bank fees, charges, interest earn and transfers are not created in the chart of accounts;

Consequently adjusting items of revenue and expenditure totaling K6,663,941 and K3,431 respectively for the main account and K970,274 and K13,322 respectively for the trust account were recorded to the cash books without raising the appropriate journal entries or issuing official receipts.

Bank Reconciliations

- The bank reconciliation prepared for the month of December for the Operating Account showed the bank balance of K2,074,817 as at 31 December, 2014 being reconciled to the cash book balance of K1,958,177 with reconciling items of outstanding deposits totaling K34,678 and un-presented cheques totaling K151,317 mostly related to 2014 financial year. Further, There was limitation of scope on the accuracy of the opening cash book balance of K1,118,582 carried forward from the 2013 financial year due to significant discrepancies noted on the previous years' cash book and bank reconciliation; and
- The bank reconciliation prepared for the month of December for the Hospital Fees Trust Account showed the bank balance of K602,416 as at 31 December, 2014 being reconciled to the cash book balance of K595,618 with no other reconciling items except for four un-presented cheques totaling K6,798 at year end. There was limitation of audit scope on the accuracy of the opening cash book balance of K307,458 carried forward from the 2013 financial year due to significant discrepancies noted on the previous years' cash book and bank reconciliation.

Vehicle Savings Account

The vehicle savings account was created to cater for vehicle maintenance expenses through monthly direct bank transfers of K1,000 from the hospital fees trust account. Funds totaling K12,000 were transferred for this purpose during the year. The following discrepancies were noted:

- Proper books of accounts including the cash book, ledger accounts, payment vouchers and bank statement of accounts were not maintained and also monthly bank reconciliation and periodic status reports were not compiled;
- The account appeared to have been closed and the remaining bank balance of K19,580 was transferred to the trust account on 3rd December, 2012. However, the standing order for direct bank transfer from the Trust Account was not ceased and the Vehicle Savings Account was not closed either. Audit was however, informed that no expenditure transactions were incurred from this account in 2014 except for the receipt of monthly direct bank transfer of K1,000 from the Hospital Fees Trust account; and
- Appropriate documents showing evidence of approval and authority to establish this account were not provided for audit review. As such, audit could not ascertain the validity and legitimacy of the existence of this account.

IBD Accounts

The Kavieng General Hospital held two short term investments in Term Deposit Accounts (IBD) with Westpac Bank, Kavieng Branch. The term deposit account # 2 010 894 was opened earlier in prior years while the term deposit account # 6 002 327 775 was opened in 2012. Audit was not provided with relevant records such as the Interest Bearing Deposit (IBD) certificates and updated statements of accounts for the current year as well as those for prior years to ascertain the principal amounts invested in the term deposits, interest income earned on each term deposit and whether the terms of the IBD investments had been extended further upon maturity dates.

Revenue Management

The National Government Grants, Hospital Fees and Charges and Lease Rentals remained the basic revenue sources for the Hospital during the year under review. A review of controls exercised over collection, recording, banking and safe custody of revenue had identified the following issues:

- Commitment Ledgers maintained by the Hospital showed national grants receipts totaled K6,816,700 while the Cashbook showed funds released through CFC's as K6,650,000 and the available bank statements showed a total of K6,616,700. Audit was however, unable to verify and confirm the accuracy of the total grants received due to non-maintenance of revenue ledgers which could have shown complete and accurate records of all grants and other receipts deposited through the Operating Account;
- Proper controls exercised over collection, recording, banking and safe custody of hospital fee collections were lacking due to the following discrepancies:
 - i. Records of daily collections were compiled and kept at the cash office without being verified by an authorized officer other than the cashier before the collections are banked. The Hospital recorded total receipts of K282,986 in hospital fees and charges for the year;
 - ii. Examination of the collectors statements compiled for the year under review revealed constant delays in banking of collections for up to a maximum of eight days;
 - iii. Official receipts as well as cash register receipts were issued to patients during the year. However, audit was not provided the book-fast copies of the official receipts issued to ascertain whether or not all collections receipted using official receipts were banked intact;
 - iv. Audit noted seven instances of daily cash collections totaling K2,433 that had been tampered with by the former OIC-Revenue whereby cheque amounts were not entered in the cash receipts register and the cash equivalent to cheque totals were removed prior to depositing the revenue collections into the bank

account. The total deposits still agrees with the daily transfer sheet total and the cash register total; and

- v. Audit sighted no evidence to suggest that surprise cash counts were conducted by a competent personnel to ensure that all revenues collected were recorded and banked promptly and intact on a daily basis. As a result, a surprise cash count conducted by audit on the 11th of April, 2016 had revealed a cash deficiency of K984. The shortfall was due to cash being borrowed by the OIC-Revenue and three other revenue collectors.
- Lease/Rental Agreements as well as the Hospital Board approval relating to leasing of land to outside interest to conduct businesses within the Hospital premises was not provided for audit review. Enquiries with one lessee indicated rental fees of K300 were paid on a 6 month basis. However, proper records were not maintained and made available to audit to ascertain whether or not income from such lease agreements had been collected and properly accounted for; and
- Occupants of institutional houses paid rent through salary deductions. However, proper records such as the detail listing of all institutional houses, occupants of each institutional house and the amount of rent paid by each tenant and outstanding rental income, if any, as at 31 December 2014 were not maintained nor made available for audit examination.

Procurement and Payment Procedures

Prudent expenditure management is necessary for effective service delivery. A review of procurement and payment procedures adopted by the Kavieng General Hospital for the year ended 31 December, 2014 had identified the following discrepancies:

- Formal instruments relating to appointment of Section 32 Officers, Authorised Requisitioning Officers (ARO's), Certifying and Examining Officers, Financial Delegates as well as their delegated financial limits were not maintained and held on file. As such, audit was unable to ascertain whether all expenditures incurred and paid were approved by duly appointed authorized officers;
- In most instances, claims presented for payment for procurement of goods and services lacked valid supporting documents such as the three required verbal and/or written quotations, formal suppliers' invoices, goods delivery reports and bills of lading and/or consignment notes for purchases made outside of the Province;
- As stated in my previous year audit reports, the Hospital continued to process cash transactions resulting in substantial amount of cash payments totaling K734,731 paid during the year from the Hospital Operating Account (K664,489) and Hospital Fess Trust Account (K70,241). Following discrepancies were note in this regard:
 - i. Generally, the payments lacked appropriate supporting documents to justify the validity and genuineness of the expenditures incurred;

- ii. The transactions were recorded in the cash book as payments made to the paymaster/paymistress when the cheques were actually drawn as cash payments. Since there is no duly appointed paymaster, anyone from the accounts section including the a/DCS were authorized to cash out these cheques; and
 - iii. There were no evidences sighted to suggest that prior approval of the acting Chief Executive Officer was obtained on such arrangements. In most cases, the claims were bulked into one cash payment, the cash book failed to record the occurrence of each of the individual transactions and also there were no records provided to show for disbursement of funds to the intended recipients or evidence of actual delivery of goods and services paid for.
- The Executive Committee in its meeting no.2 of 2012 agreed to pay K100 credits to all executives for official use of their private mobile phones. The payments for flex cards for the Directors and CEO's use during the year had amounted to K10,091 which is noted to be excessive as they also have access to the hospital landline phones. Further, the Directors and the CEO are all contract officers as well as others who are entitled for telephone allowances which are paid with fortnightly salary and being in receipt of such benefit may amount to double dipping and those not entitled to telephone allowance under the contract and in receipt may amount to misapplication or misuse of public funds;
 - Utility charges/bills totaling K11,989 were paid for several doctors' rented residences and other hospital staff by the Hospital which is also noted to be improper. Such expenses should be met by the Officers concerned. Doctors are entitled to utility allowances which are paid through their fortnightly salaries;
 - *General Orders 14.48* stipulates that, the most direct route of travel shall be the basis for calculating leave fares, unless otherwise authorized for reason of economy. "*Travel shall be by public transport other than taxi*". Audit however, noted excessive payments of vehicle hires and boat hires for officers leave fares amounting to K96,625 which is contrary to the above provisions of the General Orders. Similar procedure was applied for payments of leave fares in 2013 as well;
 - Inconsistencies were noted in respect of payments of leave entitlements to officers travelling outside of the province. Audit noted the payment for airfares were made either to airline companies or other Travel Agents however, in several instances, cheques were drawn to the respective officers. With regard to payment of airfares directly to officers concerned, some officers were paid at the correct 50% cash out rate while others were paid their leave fares entitlements in full; and
 - There was no established policy in place to guide or deliberate on the eligibility of officers, manner of payments, and rates applicable in consideration to distance of travel and mode of transport applicable for officers within the province. Consequently, payments were either made to the transport providers (boat and vehicles) or the officers concerned and exposes the Hospital to the risk of

collaboration with the transport providers to overcharge the hospital for higher rates and percentage sharing among those involved with the facilitating of claim or unfairness in approval processes, whereby by officers may be denied their right to claim leaves airfares depending on the discretion of officers involved with the approval process, or bogus claims by officers within the accounts section.

Salaries, Wages & Allowances

A review and examination of records pertaining to human resources and payroll management had identified serious breakdown in controls exercised over payroll procedures and discrepancies in payments of salaries and allowances as follows:

- The Establishment and Positional Occupancy Register which was dated as August, 2015 provided to audit showed the Kavieng General Hospital had an approved establishment of 276 positions of which 235 were occupied while 41 of the positions remained vacant. Twenty-seven employees were paid on vote item 112 while seven of these employees were employed on short term contracts;
- The ALESCO Human Resource Management Monthly Costing and Year to Date Report (RFIN03) for Pay No.26 of 2014 disclosed the year to date salaries expenditure for Kavieng General Hospital under vote item 111 as K6,251,642 compared against the appropriation of K7,285,300 hence, resulting in an under expenditure of K1,033,658 while the expenditure on wages under vote item 112 paid locally by the Hospital totaled K688,229 compared against an appropriation of K488,200 and actual funds released through CFC's totaling K688,200;
- There was no evidence to indicate that payroll reconciliations were done on a fortnightly and/or monthly basis to ensure accuracy of the total number of staff on strength as against the salaries expenditure for the pay period ending and manpower ceiling respectively;
- Gratuity, Vehicle, Housing, Overtime, DMA, SDMA & SPA and Higher Duties Allowances totalling K792,487 were inappropriately paid by the Hospital from the Hospital Operational Account. These allowances and entitlements which had been budgeted for under the salaries vote item 111 should have been processed through the ALESCO Payroll System. Further, vehicle and housing allowances were noted to have been paid directly to the Officers, tax free and as such, are deemed to be in violation of relevant Taxation Laws and Regulations.
- Audit noted two Medical Officers namely; received housing allowance entitlements of K18,000 and K43,200 for the year under review which were paid at monthly rates of K1,500 and K3,600 respectively. Audit could not ascertain whether the rates applied in calculating the payment of housing allowances are consistent with the rates determined for Housing Ownership Scheme Allowances as specified in Table 1A of the NDA Memorandum of Agreement, 2014 – 2016;

- Perusal of the payroll registers for Pay Nos. 1, 13 and 26 of 2014 also revealed inconsistencies in the payment of domestic market allowances. It was observed that doctors were paid domestic market allowances as specified in the General Orders as well as the special domestic market allowances specified in the NDA Memorandum of Agreement and that the rates of SDMA applied to doctors at different salary grades were also not consistent with the SDMA levels shown in schedule 1 of the NDA Memorandum of Agreement. Audit is of the view that the NDA Memorandum of Agreement determines the salaries, allowances and benefits for Medical Officers and unless where it is silent, the terms and conditions as set out in the Public Service General Orders will prevail. As such, those Medical Officers in receipt of both domestic market allowance and special domestic market allowance are deemed to be double paid;
- Overtime allowances paid during the year amounted to K322,891 as compared against the initial annual appropriation of K90,000 and actual funds released through CFC's totalling K290,000 hence, resulting in an over expenditure of K32,891. The payment records in respect of overtime allowances provided no evidences of proper examination, certification and approval granted by heads of the respective Directorates or the Chief Executive Officer. Staff within the Corporate Services Division occupying positions at salary grade 10 or above were also claiming excessive overtime in breach of the provisions of the Public Service General Orders under Section 13.68 which states, "Unless the Secretary, Department of Personnel Management determines otherwise, overtime pay shall not be paid to an officer who occupies a position at Salary Grade 10 (Clerk Class 8 and equivalent designations) and above"; and
- Other inconsistent payment of allowances noted was a net payment of K2,968 while at the same time he claiming overtime allowances for extra duties performed. The former acting Chief Executive Officer was paid K1000 for entertainment allowance while he was also in receipt of entertainment allowances as part of his salary entitlements.

Advances Management

The internal controls exercised over payment and acquittal of advances during the year ended 31 December, 2014 was seriously lacking in view of the following discrepancies:

- Cash, Travel and Salary Advances totaling K93,870 were paid during the year of which a total of K73,929 were paid from the Hospital Operating Account while K19,941 were paid from the Hospital Fees Trust Account. The Hospital however, had not maintained proper register and acquittal files, and as such audit was unable to confirm whether all advances paid during the year and those of prior years were properly recorded and subsequent acquittals compiled accordingly. The following were also noted:

- i. Cash advances payments lacked appropriate supporting documents such as valid receipts, disbursement reports and evidence of certification by intended recipients;
- ii. Travel advances were not acquitted within seven days of return from duty travel and officers were given new advances while previous advance remained outstanding;
- iii. Salary advance payments were mostly on request for financial assistance and occasions where officers were temporarily off the payroll system. Such expenditure commitments are not provided for in the 2014 budget estimates and as such, are deemed to be unbudgeted expenditure which violates proper budgetary control practices; and
- iv. Proper records were not maintained by the personnel section to provide an updated report on the status of salary advances as at year end with regard to names of officers, details of fortnightly deduction and total outstanding amounts due from the officers concerned.

Assets Management

Part 32 of the Financial Management Manual requires all Departments, and Provincial and Local-level Governments to maintain proper Registers for all fixed assets owned and in their custody. A separate Asset Registers are further required to be maintained for each category of fixed assets with all necessary details. All purchases or disposals of assets are to be recorded in the Stock Card designed by the Department of Finance with information of opening balance, receipt, disposal and value by quantity and cost. The Kavieng General Hospital held extensive portfolio of fixed assets purchased over the years that have not been effectively managed nor appropriately safeguarded as evidenced by the following discrepancies:

- Proper Asset Registers as required under Part 32 of the Financial Management Manual and Section 62 of the Public Finances (Management) Act were not maintained. However, audit was provided a list of assets and inventories purchased in 2011 to 2015 totaling K579,518, while selected instances of Assets purchased from both the Operating and Trust Accounts during the year 2014 only by audit amounted to K681,136;
- There was no evidence sighted during audit to indicate that physical stock-takes were undertaken to physically verify the existence, conditions as well as to ascertain the value of fixed assets held under ownership of Kavieng General Hospital at the end of each stock-take period or at year end; and
- Disposal of assets during the year and those of prior years could not be ascertained due to lack of maintenance of proper registers or disposal records.

Debtors and Creditors

As stated in my previous years audit reports, the Hospital continued to neglect maintaining appropriate records such as debtors' ledgers and proper disclosure of revenue due from the hospital institutional houses and monthly land lease rentals. Neither the Hospital maintained appropriate records of its creditors. As such, audit could not establish details of its debtors and creditors nor could ascertain amounts of outstanding revenues and payments as at 31 December, 2014.

Corporate Governance

- The Kavieng General Hospital Board did not have in place a Corporate Plan incorporating its long term objectives, priorities and targets taking into account the requirements of its stakeholders and the needs of the communities it serves. The associated plans that are needed to support the Corporate Plan such as financial management, assets management, human resources, information technology, risk management and divisional operation plans were also not in place.

In the absence of any appropriate and comprehensive Corporate Plan the Hospital may not be able to provide an efficient and effective service delivery in a coordinated manner so as to meet the needs and requirements of its stakeholders and communities it serves; and

- The Hospital had no Internal Audit Unit in place at the time of the audit in March, 2016 hence, no internal audit functions were performed on the operations of the Hospital or any audit reports provided for review for the years up to and including 2014. Audit noted however, that the Hospital did establish an Internal Auditor position in its Organizational Structure and had recently employed an internal auditor which is a way forward for the Hospital.

6.15.5 Management Response

The above observations had been communicated to the Provincial Administrator and the Management by way of a Management Letter together with recommendations for improvement. I had however, not received a response to the Management Letter at the time of preparing this Report in August, 2017.

6.15.6 Status of Financial Statements

The Kavieng General Hospital had not submitted its financial statements for the financial years ended 31 December 2012, 2013, 2014, 2015 and 2016 at the time of preparation of this Report in September, 2017. I had dispensed 2012 financial statements audits in June 2017 under Part V Section 16 (6) of the Audit Act, 1989. The audit of the internal control environment for 2015 and 2016 could not be conducted due man power and financial constraints faced by my Office.

6.15.7 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local-Level Governments Business Arms and other establishments.

As reported in my previous reports, the New Ireland Provincial Government had investments in the New Ireland Development Corporation Ltd. The entity however, had not been submitting its financial statements since 2007. As such, I was not able to confirm if the entity was still operationally active at the time preparation of this Report in September, 2017.

6.16 ORO PROVINCE

6.16.1 Introduction

The Oro Provincial Government, Popondetta Urban Local-level Government and Popondetta General Hospital are audited annually with or without the financial statements. Other LLGs and the Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective entities.

6.16.2 Oro Provincial Government

The Oro Provincial Government had subsequently submitted its financial statements for the financial years ending 31 December, 2013 and 2014 in October, 2016 well after the audit of the control environment were completed and the results reported in my 2014 and 2015 Part 3 Reports in 2015 and 2016 respectively. The examination of the financial statements and the audit of the related accounts and records however, could not be conducted due to man power and financial constraints faced by my Office.

Field work associated with audit of internal control environment for the year ended 31 December, 2015 had been completed in the absence of the financial statements and the Management Letter issued.

6.16.2.1 Control Environment – 2015

The Management Letter relating to the audit control environment for the year ended 31 December, 2015 was issued in September, 2017. The issues highlighted in the Management Letter are reproduced as follows:

Audit Results

The results of the interim audit of the Oro Provincial Government accounts and records for the year ended 31 December, 2015 had been completed. The number and magnitude of the control weaknesses identified by the audit indicate that overall, there are significant weaknesses in the internal controls framework. At present, the control activities, such as management monitoring, segregation of duties, etc., are not sufficiently robust to prevent, detect or correct error or fraud. Major deficiencies noted together with relevant recommendations for rectification and improvement are listed under the respective paragraphs below:

Budgetary Control

The Oro Provincial Government had its 2015 Appropriation Act passed by the Provincial Assembly on the 6th of March 2015 thereby approving a total anticipated revenue and expenditure of K105,402,800. The total revenue comprised of Internal Revenue of K4,575,700, National Grants of K83,911,200 and 2014 Grant Rollover Funds of K16,915,900. The following observations were made in regards to the control and expenditure of budgeted funds:

- The examination of the Expenditure Vote Summary for both the internal revenue and external grant funds expenditure has revealed a total expenditure of K18,839,959 as shown below:

	K
Actual Expenditure under Grant Funds (276)	17,887,430
Actual Expenditure under Internal Revenue (704)	952,529

- Although the Public Servants and Teaching Services Commission Salaries component is included in the appropriation Act under 276 expenditure head, the above grant funds expenditure did not include the salary components hence, it was not possible to determine if there had been any over-expenditures in the salaries component during the year under review. The TMS 55 report from Department of Finance was not available at the time of audit to ascertain any such over-expenditures;
- Perusal of the Expenditure Summary Ledgers for both the Internal Revenue (704) and Grant Account (276) revealed that no quarterly budget reviews were done for the year under review;
- Lack of providing PGAS print outs regularly and on a timely manner to Policy & Planning Division by Treasury for review and assessments continued to exist; and
- Warrants Authorities and CFC's were not promptly inputted or updated into the PGAS cash book and expenditure ledgers upon receipt by the systems administrator.

Cash and bank Balance

The Oro Provincial Government funds were channeled through three separate operating bank accounts during the year with related cash books namely, Oro Provincial Government Operating Account, Oro Provincial Government Grant Account, and the Provincial Treasury Operating Account. Audit review of the cash books and bank balances relating to the Provincial Government Operating Account and Grant Account revealed the following matters of concern:

- Monthly bank reconciliations for both the Operating and Grant Accounts had not been done to reflect correct cash balances of the revenue and grant fund as and when required. Examination of the related cash books and bank statements for instance, revealed substantial variations in year-end account balances as shown below.

	<u>Cash book</u>	<u>Bank Statement</u>
	K	K
Grant Account (276)	—17,386,720	5,135,926
Internal Revenue Account (704)	3,390,500	— 31,002

Lack of competent officers noted as a factor contributing to the non-compilation of the bank reconciliations; and

- As stated above, audit perusal of the PGAS cash book had revealed a significant cash balance on hand of K3,390,500 while the respective yearend bank statements revealed a much lower cash balances, an indication of deficiencies in the accurate and consistent update of ledgers and cash book during the year. Consequently, cashbook figures may have been inflated, warrants & CFC's entered without cash in the bank or manual cheques may have been drawn without entering into the PGAS cashbook.

Revenue Management

The examination of revenue management, collection and banking procedures had revealed the following issues:

- A 'cashless' system of accounting for the revenues was noted as being in operation at the Provincial Treasury as instructed by the Secretary of Finance previously. All cash were therefore, directly banked by each client either into the Provincial Government Internal Revenue Account or the Receiver of Public Monies (RPM) Account with bank deposit slips/butts submitted to the Receiving and Paying Officer for entering into the revenue account ledger of the cash book. This effectively meant ceasing of cash collections at any other cash collection points including the traffic registry; and
- Examination of the book-fast copies of the internal revenue Official Receipt books revealed all cancelled receipts had been properly attached to the book-fast copy.

Payment of Accounts and Procurement Management

Audit examination of the cash book, expenditure ledgers, paid vouchers, other related records and documents relating to the sampled payments worth K10,000 and above had revealed the following discrepancies as stated below:

- Instances of payments for vehicle hires during the year totalling K2,505,041 made to a Gee Hire Cars and its associated business G27 Limited of which K1,142,947 related to an outstanding debts incurred in the previous years. Following discrepancies were noted in respect of these payments:
 - i. No evidence to suggest the Provincial Administration had maintained an outstanding debts register to record such debts at year end. Consequently, the purported outstanding debts could not be verified as genuine; and
 - ii. The entity had a separate Memorandum of Understanding with individual sections or divisions of the Oro Provincial Administration such that the Divisional Heads were approving vehicle hires from the entity although many of the divisions had divisional vehicles that could have been utilised for their own needs and purposes. As such, and due to lack of a proper vehicle hire screening process in place, the Provincial Administration was very much at risk of incurring as it did, huge vehicle hire costs during the year.

- An unsigned copy of a 'Legal Services Retainer Agreement' between and Oro Provincial Administration attached to the payment voucher had an agreed Retainer fee as K30,000 per month or K360,000 per year for a period of five (5) years which equates to K1,800,000. The retainer fee was actually charged and paid at a rate of K41, 415 per month and not K30, 000 as stated in the unsigned draft copy of the Retainer Agreement. This equates to K496, 980 per year or K5,963,760 over the five (5) year period stated in the unsigned copy of the Retainer Agreement. Following other discrepancies were noted in respect of the engagement of the legal services and the payments during the year:
- The Lawyers were paid a total of K187,075 as Retainer Legal Fees during the year under review. However, the audit was not provided nor sighted evidence to indicate the Provincial Executive Council (PEC) Decision or the approval for the Retainer Agreement; signed copy of the Legal Services Retainer Agreement; evidence of any open tender called by the Oro Provincial Administration to engage the cheapest supplier of similar legal services; or the evidence of an Authority to Pre-commit Expenditure (APC) from the Department of Finance as required under *Section 47B of the Public Finance Management Act 1995*.
- An amount of K17,431 was paid to an individual as accrued return leave fares for a deceased officer. Although the deceased officer was noted to be from Kira District in Oro Province, the travel quote stated the departure as from Popondetta to Lae (via Port Moresby) by Air Niugini and Lae to Kira on North Coast Aviation was used to make the payment. The audit considers the payment to be abnormal as the officer was working in her own province and it was unwarranted to travel to two other provinces and then fly back into her own province. Further, North Coast Aviation was serving the Popondetta/Kira route hence, the route taken was unjustified. Alternatively, a sea transport could have been considered; and
- Instances of payments for recreational leave fares totalling K191, 830 made directly to officers rather than to service providers.
- Two payments totalling K168, 000 were noted to have been made to Repo Engineering & Consulting Ltd for provision of consulting services. The following discrepancies were noted in respect of these payments:
 - i. The PEC and PSTB Approvals and signed formal Terms of Engagement (Contract) as well as bill of quantities for work done including any verification of work done by the firm as duly verified by the Provincial Administration Planning Division were not sighted; and
 - ii. Information available has shown that one of the payments worth K111, 000 was made without the approval of the Section 32 officers in this case, signed by the Provincial Administrator since the amount was above the K50, 000 thresholds that a deputy Provincial Administrator can sign.
- Two payments totalling K30,000 out of a total claim of K245,960 was paid to X-Limits for education consultancy services provided in 2011. Audit sighted no

evidence of signed Consultancy Agreement between the Oro Provincial Government and the entity concerned nor were there any supporting documents for audit verification at the time of the audit.

- An amount of K10, 000 was paid as *reimbursement* for materials purchased for maintenance work on a house at Section 46 Allotment 2. Audit was not provided nor sighted evidence to suggest the maintenance work was actually done or the purchase invoice receipt for materials purportedly purchased; and
- The Oro Provincial Administration had incurred over K294,000 in various *reimbursement* claims even by individuals during the year under review. Audit sighted no evidence to indicate prior approval by the Provincial Administrator or other competent authority for use of private funds on official purposes.
- Following other payments were noted with the related discrepancies as follow:
 - i. An amount of K10,000 was paid to a former Provincial Administrator, as *storage fee* for four motor vehicles owned by the Provincial Administration that were kept at his premises.
 - ii. Two payments to a Building and Maintenance Construction company as “*duplicate*” payments totalling K30,264 for the same job. The first payment was made dated 30/9/2015 while the second payment was made on 19/10/2015.

Capital Works and Maintenance

The review of Capital Works and Maintenance Programs for the year has resulted in the following observations:

- Oro Provincial Supply and Tenders Board Annual Report (2014 -2015) has revealed among others, contracts worth K4,950,000 to three companies for three (3) projects. Included in the three was a contract worth K3,600,000 awarded to *Perpertual Niugini Ltd* for the Design & Construction of PEC Office Complex.

An Online Company search at the Investment Promotion Authority (IPA) had failed to establish the company as duly registered in the IPA Register of Companies. indicating that *Perpertual Niugini Ltd* is an unregistered company. Further, the only other prior contract work awarded to this company in Oro Province, was an incomplete maintenance work done on Saiho Health Centre in 2013. Audit sighted no evidence to suggest that the awarding of the current contract of K3,600,000 had been done with due diligence checks on the company profile at IPA and its prior completed contract work experience, which could have qualified the company to be awarded such contracts;

- The perusal of the expenditure ledgers and cash book revealed no major payments made for Capital Works during the year ended 31st December 2015 under the grant component (276) and internal revenue component (704) expenditure heads.

However, the expenditures under the Provincial Services Improvement Program (PSIP) has not been reviewed as this will be covered under the PSIP audit;

- The examination of payments under 276 and 704 has revealed payments totalling K1,384,000 for maintenance of various assets including roads & bridges, schools, health centres and other office equipment and assets. Included in the payments were three payments totalling K441,453 to *4TY Limited* for the road maintenance from Gona to Holy Cross Primary School. Audit however, did not sight evidence of PSTB Approval, the signed maintenance contract nor the completion certificates to validate the payments made to the company; and
- Payments under vote item 225 totalling K579,058 for capital works maintenance were noted to have been diverted to general administration expenses.

Grants and Subsidies

The examination of the expenditure ledgers and the cash book for the year under review revealed payments totalling K1,351,859 as grants and subsidies and various financial assistances as shown below:

	K
➤ Local level Government Grants	: 418,300
➤ Educational Grants & Assistances	: 797,857
➤ Personal Financial Assistances	: <u>135,857</u>
	<u>1,351,859</u>

However, as reported in my previous audit reports, there was no proper policy guidelines put in place to effectively screen the applications for financial assistance requests and approve the requests which met the policy guidelines. Further, there was no policy in place to monitor and ensure various grant assistance given were used for the intended purposes or the acquittals requested as deemed necessary to account for the grants used.

Assets Management

Audit review of records relating to the management of fixed assets had the following concerns which were also reported in our previous audit reports as far back as 2011:

The Oro Provincial Administration had consistently failed to maintain a comprehensive fixed assets register to record details of all fixed assets including additions and disposals during the year ended 31 December, 2015. Consequently, no such register was provided at the time of the audit in July 2016 and as such, assets worth over K99,000 (2014 - K689,395) purchased during the year have not been recorded and therefore, may not have been properly accounted for.

Advances Management

Audit review of advance management procedures revealed the following deficiencies:

Payments of advances during the year under review totaling K343,920 (2014 - K893,476 & 2013 - K442,884). As reported in our previous audit reports, the Oro Provincial Administration had consistently failed to maintain an advance register(s) nor was the

AGO-provided evidence to indicate monitoring by way of reminder letters and notices to advance holders for acquittals, neither the acquittal files maintained to keep all acquittals that may have been submitted by the advance holders. Consequently, audit was unable to determine the extent of both the acquittals and un-acquittals at year end.

Payroll

The personal files and the payroll records of senior contract officers of the Oro Provincial Administration has been requested for audit verification however, the files were not made available at the time of audit. Consequently, audit could not comment on the effectiveness of the payroll management and therefore, discrepancies or anomalies, if any, in the payment of salaries and allowances to the contract officers.

Corporate Governance

- The Oro Provincial Government had a three year Corporate Plan (2015-2017) with long term objectives, incorporating priorities, targets and requirements of its stakeholders. The Plan focused on eight Key Result Areas (KRA) fairly covering the administrative components of the province. Further, the Provincial Government also had a very comprehensive five-year Development Plan namely, the “Northern Province Five (5) Year Integrated Development Plan 2013 - 2017” with set goals for seven (7) priority areas namely, Basic goods and service delivery; Economic Development; Education; Health; Law & Justice; Community Development; and Infrastructure Development.

Audit was however, not provided evidence to suggest any reviews of the Corporate Plan that may have been done during the year under review. Consequently, any key result areas achieved over the plan could not be determined by audit;

- Audit has requested for the annual work plan, programs and any procedural or investigation reports compiled by the Internal Audit Unit during the year under review for verification. However, none was made available at the time of the audit; and
- The Provincial Assembly and Provincial Executive Council Meeting Minutes for the year ended 31st December 2015 were requested for audit review; however, none were made available for audit verification at the time of the audit. Consequently, audit was unable to ascertain whether or not there had been any Assembly and Executive Council Meetings conducted at all during the year and that relevant minutes had been maintained.

Provincial Treasury Support Services

The Provincial Treasuries around the Country play a significant supporting role of providing the accounting services for the administration of the provinces. By law they provide accounting functions for the provinces by maintaining accounts and records for the province as well as drawing cheques for the funds under their custody on behalf of the

provincial government and its administrative function. Following observations have been made in respect of the operations of the Oro Provincial Treasury:

- Officers working in the Provincial Treasury in Popondetta are mostly absconding from performing their normal weekly duties even for many weeks and no disciplinary action has been taken against them.
- This problem arose when officers allocated jobs or the positions they have occupied are not performing the jobs they are supposed to be performing. For instance, the Accountant is performing the systems administrators' job and the incumbent system administrator is not given the systems access code to perform her duties fully. This has created a situation where the incumbent systems administrator is not happy and absconding from duties; and
- There were vacancies within the Provincial Treasury not been filled. This had hampered the operation of the Provincial Treasury. The vacancies need to be filled by competent experienced officers for the smooth operation of the Provincial Treasury.

The Provincial Treasury office was aware of the problems in the operation of the Treasury but did not seem to effectively monitor and control the officers working under him. It requires Dept. of Finance Head Office to effectively rotate or retrench officers with replacements to perform and earn the pay they are paid.

6.16.2.2 Status of Financial Statements

At the time of preparation of this Report in September, 2017, the Oro Provincial Government had not submitted its financial statements for the years ended 31 December, 2015 and 2016.

6.16.3 Popondetta Urban Local-level Government

6.16.3.1 Status of Financial Statements

The Popondetta Urban Local-level Government (ULLG) had submitted its financial statements for the financial year ending 31 December 2013 while the financial statements for 2014, 2015 and 2016 were yet to be submitted at the time of preparing this report in September, 2017. Fieldwork associated with examination of the financial statements and the audit of the accounts and records for 2013 together with the audit of the internal control environment for 2014, 2015 and 2016 however, could not be conducted due to man power and financial constraints faced by my Office.

6.16.4 Popondetta General Hospital Board

6.16.4.1 Status of Financial Statements

The Popondetta General Hospital Board had not submitted its financial statements for the financial years ending 31 December, 2013, 2014, 2015 and 2016 at the time of preparing this Report in September, 2017. Fieldwork associated with audit of the internal control environment for the four years however, could not be conducted due to man power and financial constraints faced by my Office.

6.16.5 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local-level Governments Business Arms and other establishments.

As reported in my previous year reports, the Oro Provincial Government had investments in number of entities including Oro Fisheries Authority; Ambogo Saw Mill and Higaturu Motors. However, none of these entities had submitted their financial statements since their inceptions and I was not able to confirm if the entities were still operationally active at the time of preparing this Report in September, 2017.

6.17 SANDAUN PROVINCE

6.17.1 Introduction

The Sandaun Provincial Government, Vanimo Urban Local-level Government and Vanimo General Hospital (West Sepik Provincial Health Authority) are audited every year, with or without financial statements. Other Rural Local Level Governments and the Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective entities.

6.17.2 Sandaun Provincial Government

The Sandaun Provincial Government had submitted its financial statements for the financial year ending 31 December 2015 for my inspection and audit. Fieldwork associated with the audit of the financial statements had been completed with a Management Letter issued and a Disclaimer Audit Opinion issued to the Minister concerned and other relevant bodies. The paragraphs below detail the issues identified with the financial statements and the control environments.

6.17.2.1 Comments on Financial Statements - 2015

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* was issued in September 2017. The report was a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Cash balances

I am unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of Sandaun Provincial Government as at 31 December 2015 due to:

- a) The accumulated fund balance of (K4,330,113) could not be confirmed as correct due to inherited errors and material limitation of scope expressed in my previous audit reports which were not corrected in the current year's accounts and therefore will affect the opening balances of revenue and trust funds with consequent effects on the closing fund balance reported for the 2015 financial year;
- b) The accumulated fund balance of negative K4,330,113 was misrepresented by bank balances of positive K4,545,316. I was not provided explanation and documentation for this discrepancy. Furthermore, a BSP-Other Account balance of K2,441,292 and PGGA-unspent funds balance of (K4,514,170) included in the cash at bank balance did not represent actual cash balances and they lacked supporting documentation thus distorting the total cash at bank balance. Consequently, I am unable to ensure the accuracy of the total cash at bank balance and the subsequent accumulated fund balance;

- c) The operating surplus for the year as per Statement B of K6,792,325 shown in note 3 did not agree to the deficit of K18,997,251 of Statement 'B' as should be. Further, an amount of (K38,303) was reported in note 3 as prior year error. I was not provided necessary explanations and documentations for these discrepancies. Consequently, I was unable to verify and confirm the completeness and accuracy of the accumulated balance of Revenue Fund of K4,327,714 as at December, 2015;
- d) The fund balance in statement 'A' comprised of accumulated balances from Revenue Fund and Trust Fund and was represented by respective bank balances. However, the trust fund balance of K2,399 represented the *Trust Funds without bank accounts* as per Statement 'C' and hence was incorrectly disclosed as part of the Fund Balance in statement 'A';
- e) The fund balance in Statement 'A' is represented by the reconciled cash balances of the revenue account. My examination of the bank reconciliation of the Operating and Grant account revealed significant reconciling amounts not taken up in the cash book. Consequently, I was unable to ensure the accuracy of the cash balances of these cash books;
- f) Un-presented cheques from prior years (2011-2014) in the operating account totaling K70,034.79 and grant account totaling K112,865.50 were still unpresented and the status of the cheques not changed and cash books updated. Consequently, I was unable to ensure the accuracy and completeness of the total cash at bank balance; and
- g) Prior year comparative accumulative Revenue Fund of K11,122,439 disclosed did not agree to prior year audited financial statement figures of K6,608,269. Also the 2014 comparative figures shown in Notes 3, 4 and 6.1 were inconsistent to that of the 2014 audited figures resulting in the financial information misleading. Furthermore, the comparative balances were not indicated as 'restated' as should be.

Receipts and Payments

I am unable to verify the accuracy of the receipts of K94,911,785 and payments of K113,909,035 and subsequently the accuracy of the deficit of K18,997,250 as disclosed in statement 'B' for the year ended 31 December, 2015 due to:

- a) Reconciling items of revenue and expenditure appearing in the bank reconciliation statement were not posted to the respective revenue and expenditure ledgers and the cash book updated hence, not reported in statements 'B', 'J' and 'K'. Consequently, I am unable to confirm the completeness and accuracy of the receipts and payments;
- b) Personal emoluments for public servants & Teachers totaling K60,699 disclosed in Statement 'J' had been in excess of K12,247,000 and affected the receipts and payments;

- c) A proper data base for revenue collection and a proper invoicing system was not established. Hence, under collection of revenue totaling K2,762,728 in fourteen revenue heads were not captured and reported. This non-disclosure has materially affected the total revenue reported;
- d) Annual income of K18,850 received from rental of 20 Sandaun Provincial Government properties were not disclosed in the financial statements; and
- e) Expenditures were charged to incorrect votes during the year and also an over payment of K20,566 where a K40,500 was paid when actual claim approved for payment was K19,934.

Investments

Statements 'A' and 'F' and note 8 of the financial statements reported 'nil' Investments. My review of the records noted that the Sandaun Provincial Government has 100% shares with West Sepik Investments however; this investment was not reported in the financial statements. Further, the provincial government continued to subsidize some of the company's operational costs during the year amounting to K408,979. In the absence of an investment register and related records I am unable to ascertain the value of investments held by the Provincial Government.

Debtors

Appendix 2 and its corresponding Note 13 disclosed nil debtors balance. The Provincial Government did not maintain a proper debtors' ledger and have in place a proper revenue management system including a proper invoicing system for debtors from predictable revenue heads to be determined at the end of the year. Consequently, I am unable to ensure the value of total debtors of the Sandaun Provincial Government.

Assets

Good asset management was not practiced and in the absence of a comprehensive assets register, annual stock-takes and proper assets policy, I was unable to confirm the existence, custody, condition and value of assets owned by the Sandaun Provincial Government as at 31 December, 2015. Further, assets totaling K1,915,203 purchased during the year were not recorded in the assets register nor were taken up in Appendix 4 and Note 15.

Advances

Appendix 6 disclosed total outstanding advances of K9,492,096 which agreed to note 17 whilst the advance register showed total un-acquitted advances as K17,091,504 resulting in a difference of K7,599,408. I was not provided the explanation for the discrepancy and the necessary documentation for the amendments if any done. Consequently, I am unable to confirm the completeness and accuracy of the un-acquitted advances disclosed in the financial statements.

Significant Control Weaknesses

There were significant control weaknesses identified in the Provincial Government's systems and processes as follows:

- a) Although the Sandaun Provincial Government had in place a Corporate Plan for the period 2014 to 2018 and Associated Action plans, there was no review and evaluation mechanism in place to show whether provincial management team actually implemented the corporate plan through annual budgets, monitoring implementation and evaluation of outcomes against corporate plan's key result areas;
- b) Revenue management by the provincial government was poor in that the reconciliation of collections were not checked prior to banking, there were delays in banking and no segregation of duties in collection, receipting, preparing collector statements, banking and recording in cash book and ledgers. These functions were done by only one person;
- c) My examination of Paid Accounts on sample basis revealed unsatisfactory matters where economical purchasing practices were not seriously observed to maximize acquisition of goods and services with limited resources:
 - Instances of payments were noted where paid vouchers were not bona-fide with three written quotations, delivery and consignment dockets, accountability reports and contracts etc. This practice is a departure from the requirements proper procurement procedures as per the *Financial Manual*;
 - Consultancy payments totaling K277,833 lacked supporting documentation such as progress report and completion reports to substantiate the payment. Actual work done could not be measured against the Terms of Reference or Memorandum Of Understanding to ensure there was value for money for these works;
 - 100% of leave fares totaling K1,757,667 including overdue leave fares were en-cashed to the concerned officers and their dependents where the dependents did not have proper birth certificates and/or legal documents as proof to claim leave fares and this was non-compliance to the *Public Service General orders*;
 - Vehicle hire payments totaling K1,068,627 paid to vehicle hire companies and individuals were pre-engaged bypassing proper procurement procedure resulting in such excessive vehicle hire costs. There was no control over the hire and use of private vehicles and also use of Provincial Government owned vehicles where vehicles are used thereby incurring considerable transport costs;
 - A total amount of K1,803,654 was paid to various fuel suppliers during the year. In the absence of an effective control mechanism to monitor the

supply and usage of fuel and reconciled fuel dockets issued for the vehicle fleets, I was unable to ensure if the fuel account was used with due care for wastage and extravagant;

- Financial assistance to organizations, schools and individuals totaling K149,425 were paid during the year. In the absence of proper policies or established criteria, I was unable to ensure if these funds were applied for the intended purposes; and
 - Grants and Subsidies totaling K2,279,440 were made to various institutions. In the absence of proper guidelines, accountability reports or acquittals for these payments, I was unable to ensure these payments were applied for the intended purpose.
- d) My review of the control mechanism over major procurement process observed by the provincial government revealed unsatisfactory matters as follows:
- The Provincial Supply and Tenders Board (PSTB) did not follow proper procurement procedures in engaging the services of contractors for major contracts. There was no evidence of public tender being called for, registering of tenders, tender evaluation, selecting of tenderers, and awarding of contracts. It was obvious that that tenders were not evaluated based on set criteria and selection of tenderers were not fairly done to fully meet the requirement of the *Public Finances (Management) Act*; and
 - PSTB was approving and awarding contracts without any appropriate or fixed value of contracts determined. Most of the projects undertaken above K500,000 have not gone through the Authority To Pre-Commit (APC) process for those funds earmarked for project developments;
- e) The Sandaun Provincial Government did not strictly comply with the advance management procedures as follows:
- Second advances were continuously paid to advance holders with outstanding advances;
 - Reminder notices were NOT sent to holders of outstanding advances; and
 - Cash advances were paid to officers' accommodation and vehicle hire instead of paying directly to the suppliers and these were not acquitted
- f) My review of the human resource management and payroll noted that;
- All the casual Staff were transferred to Alesco payroll in 2013. It was realized that substantial amount of monies were paid to casuals totaling K739,258 who were mostly engaged as short term contract officers. There was no control on the appointment of these officers where endorsement from

Human Resource Management relating to the recruitment of these casuals through formal application;

- The fortnightly payrolls were not received from Department of Finance. Hence payroll checks were not done by the HR section to reconcile the records to ensure correct salaries and allowances are paid;
- Overtime payments totaling K110,046 were not supported with documents such as written approval for overtime work by superiors showing names of officer's, details of work done and duration of the work;
- A Local Level Government (LLG) Manager was paid on the pay roll as a teacher while he was also paid on the public service payroll on his substantive position and is seen to be double dipping; and
- A total sum of K94,807 was paid in respect of Deputy Governor's accommodation where K36,920 was paid to his name and K57,887 paid to Vanimo Forest Products as accommodation/ rental. He was only entitled to K34, 080 per annum in the capacity as Deputy Governor and K61,344 as acting Governor in accordance to the SRC Determination and hence, he was overpaid in his accommodation costs.

Disclaimer Audit Opinion

In my opinion, because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and accordingly I am unable to express an opinion on the financial statements of Sandaun Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- the Sandaun Provincial Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act, 1995*; and
- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments.*"

6.17.2.2 Management Response

The above observations had been communicated by way of Management Letter to the Provincial Administrator and Management together with implications and

recommendations for improvements. I have however, not received the responses to the Management Letter as at the time of preparing this Report in September 2017.

6.17.2.3 Status of Financial Statements

At the time of preparing this report in September, 2017 the Sandaun Provincial Government had not submitted its financial statements for the financial year ending 31 December, 2016 for my inspection and audit.

6.17.3 Vanimo Urban Local-level Government

The Vanimo Urban Local-level Government had submitted its financial statements for the years ended 31 December 2012, 2014 and 2015. Fieldworks associated with audits of the financial statements for the three years and their respective accounts and records were completed with all the Audit Management Letters and the Audit Opinion Reports issued. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.17.3.1 Comments on Financial Statements -2015

My reports to the Minister concerned and other relevant bodies under the *Organic Law and Audit Act* on the Vanimo Urban Local-Level Government's financial statements for the years ended 31 December, 2012, 2014 and 2015 were issued in June, 2017. The reports contained similar Disclaimer Audit Opinions hence, only the 2015 report is reproduced as follows:

Basis for Disclaimer Audit Opinion

Presentation of the Financial Statements

Finance Instructions 5/2000 issued under Section 117 of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation and presentation of the financial statements for Local Level Governments. The financial statements of Vanimo Urban Local Level Government for the year ended 31 December, 2015:

- Did not contain the District Administrator's Declaration of the Financial Statements in accepting responsibility on the disclosure of data and information provided on the financial affairs of Vanimo Local-Level Government; and
- Did not contain the statement on the budget performance of the Vanimo Urban local Level Government by the Town Mayor; and
- The statements were not signed by the senior management as required.

Subsequently, the financial statements were not presented in the format required by the Finance Instructions. These statements are written representations by the management in which management acknowledges its responsibility for the fair presentation of the financial statements and it also represents a means of approving the financial statements.

Since the management has not provided the necessary representations this constitutes a scope of limitation and affects every statement of the financial statements.

Opening Balances

Because of the disclaimer of opinions issued in respect of the years ended 31 December, 2014 and prior years and of other limitations on the scope of my audit as noted below, I was not able to satisfy myself as to the completeness and accuracy of the opening balances. Since these opening balances would affect the determination of the financial position and the cash flows of the Vanimo Urban Local-Level Government in the current year, I was unable to determine whether adjustments to the respective cashbooks and the financial positions, might have been necessary for the year ended 31 December 2015.

Cash Balances

I am unable to express an opinion on the accuracy of the cash at bank balance and consequently, on the financial position of Vanimo Local-level Government as at 31 December 2015 due to:

- (a) Significant reconciling items identified in the bank reconciliation statement of the operating account that had not been adjusted in the cashbook thus affected the balances at year end. I was not provided explanations and documentary evidence of adjustments made if any. Consequently, I was unable to confirm the completeness and accuracy of the year-end cash at bank balances disclosed in the financial statements.
- (b) The comparative Fund balances for the 2014 financial year reported in statement 'A' were incorrect and different from the balances presented in the prior year's financial statements. In addition, the 2014 comparative balances reported in notes 3, 4 and 17 were also noted incorrect and inconsistent to the balances reported in the 2014 financial statement.

Receipts and Payments

I am unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the excess expenditure over receipts of K221,491 for the year ended 31 December, 2015 due to:

- a) Reconciling items of revenue totaling K156,943 and expenditure totaling K328,650 were not posted to the revenue ledgers and the cash book and hence, not reported in statements 'B', 'J' and 'K'. I was not provided explanations and documentary evidence of adjustments made if any. Consequently, I was unable to confirm the completeness and accuracy of the receipts and payments;
- b) Market collections expended or borrowed without being accounted for in the cash book or the revenue ledgers which understates the cashbook and revenue ledger balances; and

- c) The comparative balances for the summary of receipts and payments for 2014 financial year were not disclosed in Statement 'B'. Furthermore, the 2014 comparative balances for sources and application of funds in statement 'D' were incorrect and the financial year was incorrectly stated as 2013. I was not provided the explanations and documentary evidence of adjustments made if any. Consequently I am unable to confirm the accuracy consistency of the comparative balances disclosed.

Debtors

Appendix 2 reported Debtor and Receivables as *nil* as at 31 December 2015. The Vanimo ULLG did not maintain debtors' ledgers for uncollected debts in respect of all revenue heads during the year. Long outstanding debts were not followed up and action taken for recovery of debts resulting in significant shortfall in revenue collection. I was not provided with explanations and reconciliations for uncollected debts in respect of all the revenue heads. Consequently, I was unable to verify the accuracy and completeness of the *nil* balance reported as at the year ended.

Assets

The appendix 4 of the financial statements showed Assets as *Nil* for the year ended 31 December 2015. An Assets Register was not maintained and stock takes of assets and inventories were not carried out during the year. In the absence of a complete Assets Register and annual stock takes, I was unable to confirm the existence and completeness of assets owned by and in the custody of Vanimo Urban Local-level Government as at 31 December, 2015.

Advance

Appendix 6 of the financial statements reported un-acquitted advances of K407,037 as at the year ended 31 December, 2015. I was not provided a proper and accurate reconciliation of the outstanding advances for the year then ended. Consequently, I am able to ascertain the accuracy of the total advances paid during the year and establish the total amount of un-acquitted advances at year end.

Significant Control Weaknesses

There was significant control weaknesses identified in Vanimo Urban Local-level Government's records and processes resulting among others these anomalies:

- a) Collection of monies was not done by a duly appointed collector of public monies and the functions of collecting, preparing collectors statements and banking were not segregated. In addition, collections receipted were not checked prior to banking and there was no safe to lock away unbanked receipts. Delays in banking were up to more than nine months.
- b) Cash collections both at the treasury office and market collections were borrowed by employees without keeping proper records.

- c) The Procurement procedures stipulated in the *Public Finances Management Act* were not adhered to including the following:
- Quotations were not obtained from suppliers nor a quotation register maintained,
 - Payment vouchers lack appropriate supporting documents, which included instances of overtime payments without compiling overtime sheets in justification of rate applied and hours claimed, lump-sum wages payments made to the collector or selected personnel lacked accountability reports of disbursement to the recipients and purchases of goods without proper invoice and delivery notes to verify whether goods received were in order with the original quotation, and
 - Prior approval were not obtained to enable the officers to work after hours and overtime paid. Claims for overtime payments were excessive with a K500 (gross) paid by the District Treasury Employees without deduction tax.
- d) Advances were paid while previous advances were still outstanding and no follow ups done or reminder notices sent to advance holders.
- e) Payments were charged to incorrect expenditure votes thus defeating the purpose of a budget.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of the Vanimo Urban Local-level Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act 1989*, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- Vanimo Urban Local-level Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act, 1995*;
- the Vanimo Urban Local Level Government did not have a five year corporate plan and has consequently breached the *Public Service General Order No. 8.11*; and
- the Vanimo Urban Local Level Government has not prepared and submitted its financial statements to the Minister and the Auditor-General prior to the year ending 31 December 2015, resulting in breach of section 114 and 119 of the *Organic Law on Provincial and Local Level Governments.*”

6.17.3.2 Management Response

The management has acknowledged the issues raised and informed me that necessary actions were taken to improve the systems and comply with the requirements.

6.4.3.2 Status of Financial Statements

The Vanimo ULLG had not submitted its financial statements for the financial year ended 31 December 2016 for my inspection and audit at the time of writing this Report in September 2017.

6.17.4 West Sepik Provincial Health Authority

The West Sepik Provincial Health Authority had submitted its financial statements for the year ended 31 December 2015 for my inspection and audit. The field work associated with examination of the financial statements for 2015 and audit of the accounts and records was completed with both the Management Letter and Audit Opinion issued. The paragraphs below detail issues identified with the financial statements and the internal control environment.

6.17.4.1 Comments on Financial Statements – 2015

My report to the Minister concerned and other relevant bodies under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the West Sepik Provincial Health Authority for the year ended 31 December 2015 was issued in September 2017. The report contained a Disclaimer Audit Opinion as reproduced below:

Basis for Disclaimer Audit Opinion

Presentation

Finance Instruction 2/2004 issued under *Section 117 of the Public Finances (Management) Act 1995* prescribes the format for the preparation and presentation of the financial statements for Public Bodies. The financial statements for West Sepik Provincial Health Authority was presented in the prescribed format which is an improvement from the 2014 presentation, however the unsigned electronic copy of the statement submitted for my review;

- The Statement of Declaration by the Chief Executive Officer – In acceptance of Responsibility on the presentation of the financial statement as true and fair was unsigned as required. Subsequently, the financial statements were not presented in the format required by the *Finance Instructions*. This constitutes a scope limitation and affects every statement of the financial statements; and
- did not disclose the Notes to and Forming Part of the Financial Statements and the Schedule of Assets and Liabilities disclosed ‘nil’ balances.

Operating & Trust Fund Balances

I was not able to express an opinion on the completeness of revenue and trust fund balances and consequently the accuracy of net surplus revenue balance of K3,105,804 reported in the financial statements due to;

- a) Material limitation of scope expressed in my 2014 audit report were not corrected and cleared in the current year's accounts and therefore will affects the opening balances of operating and fees trust accounts with consequent effects on the closing fund balance reported for the 2015 financial year;
- b) The inefficiency and inadequacy in maintaining cashbooks, ledger accounts and timely preparation of monthly bank reconciliations for both the operating and the trust accounts. Consequently, I am unable to verify and confirm the accuracy and completeness of the net revenue surplus balance of K3,105,804 as at 31 December, 2015; and
- c) The cash book balance of the old hospital's main operating was not properly closed-off and the remaining book balance transferred to the new cash book and the remaining bank balance of K1,738,586. transferred to the new account. The non-disclosure of the old operating account cash book and bank balance understates the revenue fund balance reported in the financial statements.

Receipts and Payments - 2015

I was not able to confirm the consolidated receipts totaling K15, 229,054 and expenditure incurred were not appropriately recorded to the cashbooks and respective ledgers resulting in significant variances. Disclosure errors noted in the statements presented include:

- a) Opening Trust Fund balance of K6,682,576. brought forward from the previous year did not agree to the audited financial statement closing fund balance of K6,744,321 revealing an unexplained variance of K61,744;
- b) The old operating bank account remaining balance K1,916,686 was not properly accounted for in the books of accounts for the new operating account, only an amount of K178,100 was transferred as initial deposit to open the bank account for the new operating account. The remaining balance of K1,738,586. was not unaccounted for and as such understates the fund balance reported in the financial statements;
- c) The consolidated expenditure total for the operating account of K5,234,441 includes an amount of K10,729 relating to bank charges which were recorded directly to the financial statement without raising the appropriate journal entries to update the cash book and ledger accounts;
- d) Direct bank debits of K357,822. reported for the trust account differed from the total shown by the general ledger amount of K113,825. resulting in a difference of K243,997; and

- e) Total Grant Receipts through Warrant Authorities from Waigani Public Accounts for the operating account was overstated by K600,900 due to incorrect recording of Warrant Authority # WA15527000 for which actual funds was not yet remitted through the bank account.

Significant Control Weaknesses

There was significant control weaknesses identified in the West Sepik Provincial Health Authority's accounting records and processes as follows:

- Authority did not confirm actual spending on Salaries and Allowances;
- The Lease Agreement for twenty rented properties during the year under review at a total cost of K96,152 were not provided;
- Monthly Bank Reconciliation Statements were not independently checked and certified as correct by a senior person other than the one preparing;
- The Fixed Asset Register was not properly maintained and lacks detail information of assets recorded and there was no evidence to indicate that periodic stock takes was undertaken during the year;
- Advances register and acquittal files were not adequately updated and maintained resulting in instances of advances totalling K372,773 remained un-acquitted as at the year then ended.
- Accounting Records were kept manually on a MS Excel Spreadsheet and hence has a high degree of data manipulation to enable funds to be misused or stolen.

Disclaimer of Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of West Sepik Provincial Health Authority for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- West Sepik Provincial Health Authority did not maintain proper records and accounts and has consequently breached *Section 68(1) of the Public Finances (Management) Act, 1995*;
- The Chief Executive Officer is required by the Trust Instrument to furnish annual estimates of revenue and expenditure (Budget) to the First Assistant Secretary, Loans Revenue Division, Department of Treasury and Corporate Affairs every June for the following year. This requirement has not been complied with by the then Chief Executive Officer of the Authority; and

- West Sepik Provincial Health Authority has not prepared and submitted their financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December preceding, resulting in breaches of *Section 63(2)* and *Section 63(4)* of the *Public Finances (Management) Act, 1995*.”

6.17.4.2 Management Response

Management had not responded to the matters raised in my Management Letter. Subsequently, I was not advised of any improvement at the time of preparing this Report in September, 2017.

5.17.4.3 Status of Financial Statements

At the time of preparing this Report in September, 2017 the West Sepik Provincial Health Authority had not submitted its financial statements for the year ended 31 December, 2016.

5.17.5 Business Arms

Section 16(2)(f) of the *Audit Act, 1989 (as amended)* provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local-level Governments Business Arms and other establishments. The Sandaun Provincial Government has a business arm as reported below.

5.17.5A West Sepik Investments Limited

The West Sepik Investments Limited was established by the Sandaun Provincial Government under the *Companies Act 1997* on 25th October 2012 and commenced operation on 7th January 2013.

5.17.5A.1 Functions of West Sepik Investments Limited

The principle activities of the company were at that time providing consultations management services in accordance with the Company's Act for the purposes of raising funds to support the Sandaun Provincial Government's internal revenue.

5.17.5A.2 Status of Financial Statements

The West Sepik Investments Limited had submitted its financial statements for the years ended 31 December 2013, 2014 and 2015 for my inspection and audit. Fieldwork associated with the audit of accounts and records and the examination of the financial statements have been completed and Management Letters were issued. The management provided responses to the management letters together with the adjusted financial statements for the three financial years. The responses and the adjusted financial statements are being evaluated at the time of preparing this Report in September, 2017.

At the time of preparing this Report, the financial statements for the year ended 31 December, 2016 had not been submitted for my inspection and audit.

6.18 SIMBU PROVINCE

6.18.1 Introduction

The Simbu Provincial Government, Kundiawa Urban Local-level Government and Kundiawa General Hospital are audited every year, with or without financial statements. Other LLGs and the Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective entities.

6.18.2. Simbu Provincial Government

The Simbu Provincial Government had submitted its financial statements for the financial year ending 31 December 2015 for my inspection and audit. Fieldwork associated with the audit of the financial statements had been completed with a Management Letter issued and a Disclaimer Audit Opinion issued to the Minister concerned and other relevant bodies. The paragraphs below detail the issues identified with the financial statements and the control environments.

6.18.2.1 Comments on the Financial Statements - 2015

My report on the Simbu Provincial Government for 2015 to the Ministers concerned and other relevant bodies under the *Audit Act, 1989 (as amended)* was issued in July, 2017. The report contained a Disclaimer Opinion as reproduced below:

“Basis for Disclaimer Opinion

Financial Statements - Presentation & Disclosure errors

The presentation of the financial Statements of Simbu Provincial Government for the year ended 31 December, 2015 was done in accordance with the prescribed format of *Finance Instruction 4/2000* issued under Section 117 of the Public Finances (Management) Act 1995, however I am unable to express an opinion because of the following disclosure errors as noted:

- i. The accumulated closing fund balance of K22,309,502 were from the year end reconciled accounts and does not give a true view of the Provincial Government's cash position.
- ii. The accumulated over drawn opening fund balance of K12,444,507 reported in note 3 to the statements contained inherited errors from prior years and renders the statement unreliable.
- iii. An accumulated over drawn Trust Fund balance of K9,806,195 reported in statements A & C did not have bank accounts and is misleading. Further no established trust instruments were sighted to determine the purpose of their operation.

- iv. Statements 'E' and 'F' had not disclosed any investments in any Financial Institutions, Business Arms or Corporate Entities. Due to lack of records, I am unable to comment on the Simbu Holdings Limited, Arabica & Simbu Yomba Coffee.
- v. Payroll reconciliations were not done to confirm the personal emoluments of K94, 579,389, reported as revenue and expenditures in statements J & K respectively.

Assets

Appendix 4 reported nil value of fixed assets. As such I am unable to determine the total value, condition and custody of assets of the Provincial Government as at 31 December, 2015.

Advances

The management of advance were lacking in the register which were not adequately maintained or updated. Consequently, advance totaling K5,721,100 reported in Appendix 6 remained un-acquitted as at 31 December, 2015.

Significant Control Weaknesses

There was significant control weaknesses identified in the Provincial Government's records and processes, as follows:

- Eight instances of payments totaling K89,506 did not have three necessary written quotations where applicable;
- There was no evidence of goods received noted in thirteen instances of payments totaling K95,344;
- In six instances of payments totaling K27,839 of which amounts recorded on the general ledger did not agree to invoices and supporting documents;
- Minor works contracted payments on thirteen instances totaling K1,584,800 were not supported with progress status reports to confirm the physical status of the projects before and after completion of projects;
- A total of K622,250 paid cash on seven instances to individuals to facilitate road & drainage clearing by engaging day laborers were not supported with evidence of signature and date of wage received by labors;
- Six instances of payments totaling K1,528,960 for road works and building constructions lacked bill of quantities including progress status reports for road construction works;
- Assets worth more than K1.5m purchased in 2015 could not be confirmed in the absence of a fixed assets register;

- Fourteen instances of payments totaling K336,149 made for recreation leave fares lacked proper supporting documents;
- Casual wages of K1,032,089 processed and paid from the Provincial payroll was not supported with payroll reports and details of casuals being employed; and
- The Provincial Government had provided grants and financial assistance to various entities during the year had no indication of accountability and financial reports furnished.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of Simbu Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have a duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- The Simbu Provincial Government did not maintain proper accounts and records pertaining to Grants and subsidies consequently in breach of *Section 68 (1) of the Public Finances (Management) Act, 1995; and*
- The receipts and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995 and Organic Law on Provincial Governments and Local-Level Governments.*”

6.18.2.2 Management Response

The observations on the audit of the financial statements and the accounts and records for the year ended 31 December, 2015 had been communicated by way of a Management Letter to the Administrator of the Province with recommendations for improvements. However, the responses to the Management Letter had not been received at the time of preparation of this Report.

6.18.2.3 Status of Financial Statements

The Simbu Provincial Government had submitted its financial statements for the financial year ending 31 December, 2016 for my inspection and audit. However, due to staff and financial constraints, I am unable to conduct the field audits for it to be reported in this Report. I will report upon this audit in the 2017 report subject to the availability of resources.

6.18.3 Kundiawa Urban Local-level Government

6.18.3.1 Status of Financial Statements

The Kundiawa Urban Local-level Government (ULLG) had submitted its financial statements for the financial years ending 31 December, 2012, 2013, 2014 and 2015 for my inspection and audit. I had dispensed 2011 financial statements audit under *Part V Section 16 (6) of the Audit Act, 1989 (as amended)* in June 2016. However, due to staff and financial constraints, I am unable to conduct the field audits for it to be reported in this Report. I will report upon this audit in the 2017 report subject to the availability of resources.

6.18.4 Sir Joseph Nombri Memorial Kundiawa General Hospital

6.18.4.1 Comments on Financial Statements – 2015

My report on the Sir Joseph Nombri Memorial Kundiawa General Hospital for the year ended 31 December, 2015 to the Ministers concerned and other relevant bodies under the *Audit Act, 1989 (as amended)* was issued in July, 2017. The report contained a Qualified Audit Opinion as reproduced below:

“Basis for Qualified Opinion

Financial Statements

The Consolidated Financial Statement disclosed Salaries, Wages, Employee Benefits as K19,342,986 for the year ended 31 December, 2015. However, the ALESCO Payroll records stated K17,144,835 as Salary and Wages paid for the *SJNM Kundiawa General Hospital* during the year. I was unable to verify the reconciliation difference of K2,198,151 as necessary explanations and documentation were not provided for my verification. As a result, I am unable to confirm the validity and the correctness of the Salaries, Wages, and Employee Benefits paid for the year ended 31 December, 2015.

Report on other Legal and Regulatory Requirements

In addition to the basis for the qualification, I also wish to report on the breaches of the *Public Finances (Management) Act, 1995 (as amended)* and the *Public Service (Management) Act, 1995* and other enabling legislations.

- The SJNM Kundiawa General Hospital had a budget estimate of K25,788,643 and was appropriated K18,149,900, however, the actual expenditure of K31,504,825 exceeded the budgeted estimates and appropriation by an over expenditure of K5,716,182 and K13,354,925 respectively for the year ended 31 December, 2015;
- Further, an over expenditure of K6,648,135 was incurred for Salaries & Allowances during the year ended 31 December, 2015. These included un-appropriated payments made for National Doctors Agreement Awards (NDA) in relation to various allowances and increments for Salaries and Allowances and other staff costs. All these payments were not budgeted for;

- Six payments made to suppliers totaling K104,069 were not checked and verified for their correctness as the paid vouchers were not provided for my review; and
- The National Doctors Agreements (NDA) Awards for 2014-2016 specifies Allowances for Doctors however, several Doctors of the SJNM Kundiawa General Hospital had received double Motor Vehicle Allowances totaling K248,000 during the year ended 31 December, 2015.

Qualified Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the Financial Statements of SJNM Kundiawa General Hospital for the year ended 31 December, 2015;

- gave a true and fair view of the financial position and the results of its operations for the year then ended in accordance with the *Finance Instructions*; and
- The financial statements have been prepared in accordance with the *Finance Instructions* issued under the *Public Finances (Management) Act, 1995*.”

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following is a matter of concern;

- The Chief Executive Officer is required by the Trust Instruments of the Trust Account to furnish annual estimates of revenue and expenditure to the First Assistant Secretary, Loans Revenue Division, and Department of Treasury in June of the subsequent year. This requirement was not complied with for the year ended 31 December, 2015.”

6.18.4.2 Management Response

The observations on the audit of the financial statements and the accounts and records for the year ended 31 December, 2015 had been communicated by way of a Management Letter to the Chief Executive Officer of Sir Joseph Nombri Memorial Kundiawa General Hospital together with recommendations for improvements. However, the responses to the Management Letter had not been received at the time of preparation of this Report.

6.18.4.3 Status of Financial Statements

The Sir Joseph Nombri Memorial Kundiawa General Hospital had not submitted its financial statements for the financial year ending 31 December 2016 for my inspection and audit. The audit will be carried out once the financial statements are submitted to my Office.

6.19 SOUTHERN HIGHLANDS PROVINCE

6.19.1 Introduction

The Southern Highlands Provincial Government, Mendi Urban Local-level Government and Mendi General Hospital are audited every year, with or without financial statements. Other Local-Level Governments and the Business Arms of the Provincial Government could not be audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective entities.

6.19.2 Southern Highlands Provincial Government

The Southern Highlands Provincial Government submitted its financial statements for the financial years ending 31 December 2014 and 2015. Fieldwork associated with audit of the accounts and records were completed with the Management Letters issued and the audit opinion reports were issued to the Ministers concern. The audit reports were issued with Disclaimer of Audit Opinions. The issues identified with the financial statements and the control environments were similar hence, only the 2015 issues are reproduced below:

6.19.2.1 Comments on Financial Statements – 2015

My reports to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the financial statements of the Southern Highlands Provincial Government for the years ended 31 December 2014 and 2015 were issued in April 2016 and May 2017 respectively. The reports contained similar Disclaimer Opinions hence; only 2015 report is reproduced as follows:

Basis for Disclaimer Opinion

Presentation of Financial Statements

The financial statements did not contain the signed statements of the Provincial Administrator acknowledging its responsibility for the fair presentation of the financial statements for the year ended 31 December, 2015 and the Provincial Governor's Statement on the provincial budget performance was un-signed. Furthermore, the statements were not signed by the senior management as required. Subsequently, the financial statements were not presented in the format required by the *Finance Instructions 4/2000* issued under *Section 117* of the *Public Finances (Management) Act, 1995*.

Cash balances

I was unable to express an opinion on the accuracy of the cash at bank and trust account balances and consequently, on the financial position of the Southern Provincial Government as at 31 December 2015 due to:

- The overdrawn accumulated fund balance of K383,102,413 could not be confirmed as correct due to errors and material limitation of scope expressed in previous audit reports. In addition, the operating deficit for the current year was materially misstated as discussed under the paragraph of Receipts and Payments below;
- The Provincial Revenue fund of K383,095,023 was materially distorted due to erroneous accounting practice adopted in the treatment of unspent grants carried forwarded from prior years.;
- Note 3 to the accounts disclosed a prior year adjustments of K14,781, however, supporting documentation substantiating the correctness of the adjustment was not provided for my examination;
- The Fund Balance in Statement “A” was represented by the un-reconciled cash balances of Revenue and Trust Accounts. My examination of the bank reconciliation of the Grant and the Provincial Government Operating accounts revealed significant outstanding reconciling balances inherited from priors; and
- The trust balance of K7,390 in statement ‘C’ was a carried forward balance from prior years and related to court/police bails and child maintenance. This balance was a not the Provincial Government Trust Fund and hence incorrectly reported in Statement ‘C’. Furthermore, the deficit disclosures in statement ‘A’ was not consistent with positive disclosure in statements ‘C’ and note 4 to the accounts.

Receipts and Payments

I was not able to verify and confirm the accuracy of the receipts of K107,139,962 and payments of K119,701,930 and subsequently the accuracy of the operating deficit of K12,561,969 in statement ‘B’ and the related statements ‘J’ and ‘K’ due to:

- The Southern Highlands Provincial Government has not recorded in its cash books and revenue ledgers the grants from national government and internal revenues from natural resources benefit receipts and subsequently were not reported in statements ‘B’ and ‘J’ which also materially affected the balances disclosed in Statements ‘A’ and ‘D’. This has been a continuous problem which have been highlighted in my previous years’ reports;
- Staffing and Teacher’s salaries grants paid directly by the Department of Finance were not recorded in the provincial government’s ledgers nor were they reported in the respective statements ‘B’, ‘J’ and ‘K’. In addition, the TMS 55 Report from the salary section of the Department of Finance was not made available, consequently I was unable to confirm the actual figures expended from the Department of Finance and to establish the actual from budgeted figures reported;
- Significant reconciling items identified in the bank reconciliations statements of the SHPG Operating and Grant Accounts pertaining to receipts and expenditure that were not adjusted in the cashbook and posted to the respective ledgers and disclosed in Statements ‘J’ and ‘K’ with consequential effects on Statements ‘B’ and ‘A’.

Investments

Statement 'F' showed 'Nil' balance as at 31 December, 2015. The Southern Highlands Provincial Government although held significant long term investments had over the years not recorded and report any Investments in its books and the financial statements. I have repeatedly reported in my previous reports and this report that Southern Highlands Provincial Government had IBD of K2 million held with BSP and holds K60,000 investments in shares with SHP and Gulf Energy accruing interest at 60%, K100,000 investments in shares with Kaupena Coffee Exports accruing interest at 60% per annum and investments in Muruk Lodge, newly built Mendi Valley Plaza and Southern Highlands Holdings Ltd. In the absence of the investment register, share certificates and other related documents I was unable to establish the numbers and value of investments held and/or disposed by the Provincial Government and the interest received if any related to these investments.

Assets

The Appendix 4 of the financial statements stated Assets as *Nil* for the year ended 31 December, 2015. The Provincial Government had maintained a Fixed Asset Register hence, in the absence of a complete and up-dated assets register and annual stock takes, I was unable to confirm the value, completeness and existence of the assets owned by the Southern Highlands Provincial Government. I noted that assets purchased during the year totaling K977,219 and those purchased in the prior years had not been recorded and maintained appropriately. Lack of proper maintenance of a fixed asset register has resulted in a significant understatement of Appendix 4 that is unreliable and misleading.

Advances

The Appendix 6 of the financial statements stated as *Nil* Un-aquitted Advances balances. My examination of the advance and acquittal register revealed that it had not been adequately maintained resulting in significant outstanding advances not recorded and reported in Appendix 6. Further, outstanding Advances totaling K1,858,346 per the register were not appropriately reported. In the absence of an updated advances register I am unable to ascertain the accuracy, completeness and recovery of un-acquitted advances.

Significant Control Weaknesses

There was significant control weaknesses identified in the Provincial Government's records and processes, as follows:

- The Provincial Government did not effectively collect and maintain proper records of both the national grants and internal revenue for the year. Evidence of check and balances were apparently non-existent and Collectors statements were often not signed. Segregation of duties being the key element of control over revenue management was not being exercised. Delays of banking for months were also noted. There is a significant break down in the control of revenue management by the provincial government;

- Procurement processes pertaining to the purchasing of goods and services were not properly adhered to. Most claims processed and paid lacked required quotations and supporting documents and there were no document evidence or proper records to justify the adequate management of fuel usage;
- Consultancy and legal fees of K5,369,172 had no documented evidence to prove that the required works were done by the consultants and reimbursements totalling K509,180 made for personal expenses were without proper supporting documentation;
- Payments of financial assistances totalling K3,663,130 were made to individuals and organizations. There was no proper policy, guideline or criteria in place to determine such payments;
- No guidelines were in place for payments of Grants and subsidies provided to various organizations and institutions. Furthermore, these recipients failed to provide accountability an annual financial reports;
- The instrument establishing the PSTB including the appointed members and their specified financial limits were not provided. The tender register lacked adequate and necessary information relating to all tenders invited, quotations received, contracts awarded and even certificate of inexpediency;
- The PSTB was not functioning effectively and as such records and documentation of PSTB Technical and Evaluation Committee reports were not made available for my examination. Consequently, I was not able to ascertain that proper evaluation and recommendations were made to the Board. Also pre-qualification list of local contractor was lacking; and
- I noted that lump sum and complete payments were made to contracts awarded although several projects have not commenced yet. Furthermore, implementation and monitoring of projects was lacking consequently, I was unable to confirm the projected status and verify it against the payments made.

Disclaimer of Audit Opinion

Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of the Southern Highlands Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- the Southern Highlands Provincial Government did not maintain proper accounts and records in terms of its receipts, payments, investment of moneys, the acquisition and disposal of assets and had consequently breached Section 68(1) of the *Public Finances (Management) Act, 1995*;

- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Government*; and
- Southern Highlands Provincial Government has not prepared and submitted its financial statements to the Minister and the Auditor-General prior to 30 June for the year ending *31 December 2015*, resulting in breach of *Section 114* and *119* of the *Organic Law on Provincial and Local Level Governments*.”

6.19.2.2 Management Response

Management had not responded to the matters raised in my Audit Management Letter for 2015. Consequently, I am unable to determine if there were any improvements at the time of preparing this Report in September, 2017.

6.19.2.3 Status of Financial Statements

At the time of preparing this Report in August 2017, the Southern Highlands Provincial Government had not submitted its financial statements for the years ended 31 December 2015 for my inspection and audit.

When the financial statements are submitted, I will carry out a ‘One-Stop-Audit’ which will also include the Provincial Hospital and the Urban Local-Level Government and report in my 2017 Part 3 Report.

6.19.3 Mendi Urban Local-level Government

6.19.3.1 Status of Financial Statements

At the time of preparing this Report in September 2017, the Mendi Urban Local-Level Government had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015 and 2016.

6.19.4 Mendi General Hospital Board

The Mendi Hospital Board submitted its financial statements for the year ended 31 December 2015. Fieldwork associated with audit of the accounts and records and the examination of the financial statements were completed with the Management Letter issued and the audit opinion report issued to the Ministers concerned in July 2016. The internal control issues identified had been reported in my last 2015 part 3 report to parliament and the paragraphs below detail issues identified with the financial statements.

6.19.4.1 Comments on Financial Statements – 2015

My report to the Ministers concerned under the *Public Hospitals Act* and the *Audit Act* on the financial statements of the Mendi General Hospital for the year ended 31 December, 2015 was issued in September 2016. The report contained a Qualified Opinion and is reproduced as follows.

Basis for Qualified Opinion

Bank Balances

Because of the inherited errors carried forward from previous years which were not corrected in the current year's accounts, I was not able to satisfy myself as to the completeness and accuracy of the opening Accumulated Fund Balances of K17,277,208. Since these opening balances would affect the determination of the financial position and the cash flows of the Mendi General Hospital in the current year, I was unable to determine whether adjustments to the respective Cashbooks, financial position and the cash flows, might have been necessary for the year ended 31 December, 2015.

Salaries paid directly by National Department of Health

I was unable to confirm the accuracy and completeness of salaries of K9,328,400 paid directly by National Department of Health reported in the financial statement due to non-availability of the TMS report from the department and payroll reconciliation. I was not provided reconciliation, explanations and documentary evidence for the balance.

Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the financial statements of Mendi General Hospital for the year ended 31st December, 2015;

- a) give a true and fair view of the financial position and the financial results of its operations for the year then ended in accordance with the Finance Instructions; and
- b) With exception of instances of non-compliance described under Other Matters, the financial statements have been prepared in accordance with the *Finance Instructions* issued under the *Public Finances Management Act, 1995*.

Other Matters

In accordance with the *Audit Act*, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following is a matter of significance:

- The Chief Executive Officer is required by the Trust Instrument to furnish annual estimates of revenue and expenditure (Budget) to the First Assistant Secretary, Loans Revenue Division, Department of Treasury and Corporate Affairs every June for the following year. This requirement has not been complied with by the then Chief Executive Officer of the Hospital."

6.19.4.2 Status of Financial Statements

At the time of preparing this Report, the financial statements for Mendi General Hospital for the year ended 31 December, 2016 have been submitted and arrangements have been made to commence the audit and field audits were scheduled to commence shortly.

6.20 WEST NEW BRITAIN PROVINCE

6.20.1 Introduction

The West New Britain Provincial Government (WNBPG), Kimbe Urban Local-level Government, Kimbe General Hospital and New Britain Palm Oil Trust are audited every year, with or without financial statements. Other LLGs and the Business Arms of the Provincial Government could not be fully audited due to manpower and financial constraints faced by my Office and the lack of records and logistical support from the respective Governments and Business Arms.

6.20.2 West New Britain Provincial Government

The West New Britain Provincial Government had submitted its financial statements for the year ended 31 December, 2015 for my inspection and audit. The examination of the financial statements and the fieldwork associated with the audit of the accounts and records had been completed and Management Letter issued in June, 2016 with the audit report also issued to the Ministers concerned. The paragraphs below detail issues identified with financial statements and internal control environment for 2015.

6.20.2.1 Comments on Financial Statements – 2015

My report to the Ministers concerned and other relevant bodies under the *Organic Law* and the *Audit Act* on the 2015 financial statements of the West New Britain Provincial Government was issued on 29th November, 2016. The report contained a Disclaimer Audit Opinion as reproduced below:

Basis for Disclaimer Audit Opinion

I noted the following disclosure errors which could have material effect on the accuracy and completeness of the West New Britain Provincial Government Account balances and consequently, the financial position of the Provincial Government as at 31 December, 2015.

Cash Balances

- The West New Britain Provincial Government Revenue Fund and Trust Fund balances used in Notes 3 and 4 computations contain inherited errors brought forward from prior years. As a result, the cash and bank balance of K30,984,861 was not in agreement with the reconciled closing cash balances of K30,154,028 disclosed in *Note 6.1* to the accounts hence, resulting in an unexplained difference of K830,833 at year end; and
- The balance of the Provincial Revenue Fund of K27,722,048 disclosed in note 3 could not be confirmed as correct due to errors and material misstatement of the operating surplus as discussed under the paragraphs on Receipts and Payments for the year ended 31 December, 2015.

Receipts and Payments

The West New Britain Provincial Government reported its total revenue and expenditure as K75,169,425 and K71,841,650 with an operating surplus of K3,327,775. I am unable to confirm the accuracy of the revenue and expenditure and therefore, the correctness of the operating surplus as at 31 December, 2015 due to the following reasons:

- I noted the Statements 'B', 'J' and 'K' disclosed nil amounts on Public Servants' and Teachers' Salaries actual receipts and expenditures while the IFMS 2233 Report from Department of Finance stated Warrant Authority released funds for Public Servants Staffing Grants as K12,482,000. The total actual receipts for salaries were not taken up in the respective revenue ledgers and disclosed in the Statements even though these were provided for in the 2015 WNB Provincial Appropriation Act; *and*
- The IFMS 2233 Report from Department of Finance also disclosed Warrant Authority released funds and expenditure balances in respect of overtime, Retirement Benefits, Pensions, Gratuities and Retrenchment, Unidentified Alesco Payroll Expenditure, Staffing Grant, Public Servants and Teachers' Leave Fares amounting to K4,739,000 which had not been taken up in Statements 'J' and 'K' respectively.

Investments

Statement 'F' on Direct Investments, Capital Contributions, Equity, Options and Rights did not disclose any information nor balances relating to long term investments held by the Provincial Government. As stated in my previous year audit reports, the Provincial Government held investments in business arms namely; Cape Hollman Corporation, West New Britain Development Corporation, West Farm Resources Limited and Mokmok Development Corporation. In the absence of the audited financial statements of the investment companies as well as the Investment Register and other related records to be held by the Provincial Government, I am unable to ascertain the status and existence of the investment companies,

Assets

Appendix 4 to the financial statements is intended to disclose details or a summary of the value of fixed assets held and owned by the Provincial Government at year end. The appendix however did not disclose details or a summary of the value of fixed assets as at 31 December, 2015. Further, I was not provided with the Fixed Asset Master Registers to ascertain the total value of assets owned and in the custody of the Provincial Government at year end. My review of the expenditure ledgers revealed the Provincial Government purchased fixed assets worth K4,957,768 during the year which could not be effectively verified or traced to the Fixed Asset Master Registers. Consequently, I am unable to verify the completeness and the accuracy of the value of assets owned and under the custody of the West New Britain Provincial Government as at 31 December, 2015.

Significant Control Weaknesses

The paragraphs below give a summary of significant control weaknesses identified in the West New Britain Provincial Government's records and processes:

- The WNB Provincial Assembly had approved the sale of 12 Million WNB POL shares to Sime Darby Plantations through full acceptance of takeover offer and that all cash considerations received through the offer be the proceed of K345, 840,000 to be re-invested and held in Treasury Bonds with Bank of Papua New Guinea on short or medium term basis and invested also in Premium Properties and Blue Chip Shares. I was not provided for my satisfaction evidence to suggest the Resolution passed by the Provincial Assembly had been implemented as directed;
- In thirteen instances, payments totaling K2,506,885 were not certified to determine the legitimacy of the expenditures incurred prior to processing payment of the claims presented for payment;
- In four instances, the payment vouchers with relevant supporting documents relating to payments to contractors and for outstanding vehicle hires totaling K929,547 were missing from files. Consequently, I am unable to ascertain the legitimacy and validity as well as proper authorization of the claims presented for payment;
- Payments totaling K193,033 in respect of reimbursement of personal monies used for expenses incurred on behalf of the Provincial Government. I observed the claims presented for payment lacked complete and appropriate supporting documents to verify the validity and genuineness of the claims as well as evidences to suggest the officers had obtained prior approval from their respective Divisional Heads and/or Provincial Administrator to enter into such arrangements;
- Payments for private vehicle hires during the year totaling K2,042,986 noted as being too excessive and lacked appropriate supporting documents including required three written quotations and proper supplier invoices. Validity and genuineness of payments totaling K4,323,403 for settlement of prior years' outstanding claims by various organizations, suppliers and individuals could not be ascertained in the absence of appropriate original copies of supporting documents including invoices;
- Payment of legal and consultancy services fees totaling K224,575 and K314,010 respectively lacked supporting signed contract agreements to suggest that the engagement of private lawyers and consultants were sanctioned by appropriate authorities including Provincial Supply and Tenders Board;
- The WNB Provincial Government had expended over K5.602m on capital works & maintenance during the year. I observed payments to private contractors were made in full prior to commencement of work and/or not supported by appropriate progressive work reports or duly certified certificates of completion to indicate satisfactory execution of tasks/projects and propriety of the payments;
- A certain contractor was engaged to construct a 4 in 1 double classroom at WNB Technical College on a contract value of K482,185. The supporting PS&TB approval documents were incomplete and lacking necessary details. Another contractor was paid K600,000 in total for alteration work at Textile Shed and additional variations work at the Barefoot College. I sighted no evidence of PS&TB contract approval/agreement supporting the claims presented for payment;

- I observed serious lack of proper monitoring and recovery exercises on travelling allowances and cash advances dating back to 2005 totaling K1,185,696 that had remained un-acquitted as at 31 December, 2015. Numerous instances of additional travelling and cash advances totaling K613,046 were also paid despite non-acquittals of the previous balances;
- As stated in my previous years audit report, the Provincial Government had paid salary advances totaling K193,030 to newly engaged officers over three consecutive paydays in 2010 whilst due appointment formalities with the Department of Personnel Management and input of personal data into the Department of Finance ALESCO payroll system were still in process. The Provincial Government had only recouped a sum of K40,330 since with a balance of K152,700 remained outstanding; and
- Lump sum payments as grants and subsidies and financial assistances to Public Authorities, Non Profit Organizations, Tertiary Institutions and Schools, Community Organizations and individuals except for Local Level Governments, totaling K4.699m were made during the year under review. I noted no evidence to suggest the provincial government had put in place proper monitoring guidelines or mechanisms to ensure that funds had been utilized on intended purposes and/or properly accounted for by way of accountability reports from recipients.

Disclaimer Audit Opinion

Because of the significance of the matters described above, I am not able to obtain sufficient appropriate audit evidence and consequently, I am unable to express an opinion on the financial statements of West New Britain Provincial Government for the year ended 31 December, 2015.

Other Matters

In accordance with the Audit Act, I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- West New Britain Provincial Government did not maintain proper accounts and records and has consequently breached Section 68(1) of the *Public Finances (Management) Act 1995*; and
- The receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*”.

6.20.2.2 Management Response

Management had not responded to the matters raised in my Management Letter. Subsequently, I was not advised of any improvement at the time of preparing this Report in September 2017.

6.20.2.3 Status of Financial Statements

At the time of preparing this Report in September, 2017 the West New Britain Provincial Government had submitted its financial statement for the year ended 31 December, 2016 for my inspection and audit. However, due to staff and financial constraints, I am unable to conduct the field audits for it to be reported in this Report. I will report upon this audit in the 2017 report as I mitigate the constraints placed upon me.

6.20.3 Kimbe Urban Local-Level Government

6.20.3.1 Status of Financial Statements

At the time of preparing this Report in September, 2017 the Kimbe Urban Local-Level Government had not submitted its financial statements for the years ended 31 December, 2014, 2015 and 2016. Audit will be conducted upon receipt of the financial statements.

6.20.4 Kimbe Hospital Board

At the time of preparing this Report in September, 2017 the Provincial Hospital had not submitted its financial statements for the years ended 31 December 2013, 2014, 2015 and 2016. The audit of the control environment for 2013 was completed and Management Letter issued and reported in my 2014 Part 3 Report in 2015. The audit of the control environment for the years 2014, 2015 and 2016 however, could not be conducted due to man power and financial constraints faced by my Office.

6.20.4.1 Status of Financial Statements

At the time of preparing this Report in September, 2017 the Kimbe Hospital Board had not submitted its financial statements for the years ended 31 December, 2013, 2014, 2015 and 2016. Audit will be conducted upon receipt of the financial statements.

6.20.5 New Britain Palm Oil Limited

6.20.5.1 Status of Financial Statements

At the time of preparing this Report in September, 2017 the New Britain Palm Oil Limited (NBPOL) had submitted its financial statements for the years ended 31 December 2015 and 2016 for audit. The field work associated with the examination of the financial statements and the audit of the accounts and records for both years however, could not be conducted due to financial constraints faced by my Office as well as the uncertainties associated with the 2017 National General Elections.

6.20.6 Business Arms

Section 16(2)(f) of the Audit Act 1989 provides for and extends my functions to audit the accounts and records of the Provincial Governments and Local-Level Governments Business Arms and other establishments.

As reported in my previous reports, I am aware of the following business arms of the West New Britain Provincial Government namely, Cape Hollman Corporation, West New Britain Development Corporation, West Farm Resources Limited and Mokmok Development Corporation Ltd. However, none of the entities had submitted their recent financial statements to-date for audit at the time preparation of this Report in September, 2017.

6.21 WESTERN HIGHLANDS PROVINCE

6.21.1 Introduction

Western Highlands Provincial Government, Mount Hagen Urban Local-level Government and Western Highlands Provincial Health Authority are audited every year, with or without financial statements. Other LLGs and the Business Arms of the Governments could not be audited due to manpower and financial constraints faced by my office and lack of records and support from the respective Governments.

5.21.2 Western Highlands Provincial Government

5.21.2.1 Status of Financial Statements

At the time of preparing this Report in September 2017, the audit inspection of the accounts and records and the examination of the financial statements for the provincial government for the year ended 31 December 2015 had been completed and the results were being evaluated.

The financial statements of the provincial government for the year ended 31 December 2016 had been submitted for my inspection. The field work associated with audit of the accounts and records and the examination of the financial statements however, could not be conducted due to financial constraints faced by my Office as well as the uncertainties associated with the 2017 National General Elections.

6.21.3 Mt Hagen Urban Local-level Government

The Mount Hagen ULLG had submitted its financial statements for the year ended 31 December 2015 for my inspection and audit. The fieldwork associated with the audits of the financial statements had been completed with Management Letters issued and a Disclaimer Audit Opinion was issued to the Ministers concerned. The issues identified with the financial statements and the control environments are reproduced as follows:

6.21.3.1 Financial Statements - 2015

My report to the Ministers concerned and other relevant bodies under the *Organic Law on Provincial Governments and Local-Level Governments* and the *Audit Act* was issued in September 2017. The report was a Disclaimer Audit Opinion as reproduced below:

Basis for Disclaimer Audit Opinion

Presentation of Financial Statements

Finance Instruction 5/2000 issued under *Section 117* of the *Public Finances (Management) Act 1995* states the prescribed format for the preparation and presentation of the Financial Statements for Local Level Governments. The Financial Statements of Mt. Hagen Urban Local-Level Government:

- did not contain the Lord Mayor's Declaration on the Mt. Hagen Urban Local-Level Government's budget performance for the year ended 31 December, 2015 as required; and
- the Statement of District Administrator's Declaration of the Financial Statements in accepting responsibility on the disclosure of data and information provided on the financial affairs of Mt. Hagen Local-Level Government was unsigned.

These statements are written representations by the management in which management acknowledges its responsibility for the fair presentation of the financial statements and it also represents a means of approving the financial statements. Since the management has not provided the necessary representations this constitutes a scope of limitation and affects every statement of the financial statements.

Furthermore, the statement 'A' was not signed by the District Administrator to authenticate the validity of this statement and as per required; this constitutes a scope of limitation and affects every statement of the financial statements. In addition, prior year comparative figures for Notes 3, 4 and 6.1 and Statements 'C' were not consistent with that of the audited balances and hence, incorrect and misleading and not in compliance with the reporting requirements.

Cash Balances

I am unable to express an opinion on the accuracy of the total Fund and Cash balances of K584,889 respectively and consequently, on the financial position of Mt Hagen Urban LLG as at 31 December, 2015 due to the following issues:

- a) Because of the disclaimer of opinion issued in respect of the year ended 31 December, 2014 and because of other limitations on the scope of my audit as noted below, I was not able to satisfy myself as to the completeness and accuracy of the opening bank balances. Since these opening balances would affect the determination of the financial position and the cash flows of the Mt Hagen Urban LLG in the current year, I was unable to determine whether adjustments to the respective Cashbooks and ledger accounts, might have been necessary for the year ended 31 December, 2015;
- b) PGAS Trust Accounts aggregate balance of K208,110 reflected by the ledger accounts was not reported in Statement 'C', Note 3 and subsequently the Trust Funds Balance of Statement 'A' and as such affects the total Fund balance reported in Statement 'A'; and
- c) The accuracy of the Revenue Fund balances of K584,889 shown in Note 3 to the account could not be confirmed as substantial reconciling items of revenue and expenditure appearing in the reconciliation statement was not adjusted in the cash book and ledger accounts with consequential effects on the revenue and expenditure totals reported in statements 'J', and 'K' respectively.

Receipts and Payments for 2015

The Mt. Hagen Urban Local-Level Government through Statements 'J' and 'K' reported total revenue of K2,326,239 and total expenditure of K2,594,803 respectively. I am unable to confirm the completeness of the receipts and payments due to un-reconciled items reported under Cash Balances above as well as discrepancies noted below in my observation on the related books and records maintained.

Debtors and Receivables

Appendix 2 showed nil balance as at 31 December, 2015. My examination of records pertaining to Land Rates and Trading Licenses revealed an outstanding of K2,449,084 as at 31 December, 2014. In the absence of proper reconciliations and records I was unable to confirm the total land rates collected and the outstanding as at the year then ended. Furthermore, I noted that the Urban Tax arrears have reduced from K9,260,260 in 2014 down to K2,099,084 in 2015 however, there was no indication of debts collected and reported and I was not provided the explanation of the variance with supporting documentation consequently, I was unable to verify and confirm the completeness and accuracy of the debts collected and the outstanding balance.

Assets

Appendix 4 did not show a complete report of all the assets, information provided is incomplete, inadequate and therefore unreliable to confirm the total value of assets owned and in the custody of the Urban Local Level Government as at 31 December, 2015. The Urban Local Level Government commits huge amount of expenditure on assets and inventory purchases every year and yet it has failed to provide good management nor provided any policies as guidance over the economical usage of these assets including inventories

Advances

Appendix 6 did not disclose any information and data of outstanding advances as at 31 December, 2015. There was a complete breakdown on the internal controls over the management of advances, arising from inadequacy on the maintenance of the advance register which was not updated regularly, incompleteness in recording details information of advances paid, failure to comply with acquittal processes and imposing of penalties on advance defaulters. Consequently I was unable to verify and confirm the accuracy of the total outstanding advances reported in Appendix 6 of the financial statements

Significant Control Weaknesses

There was control weaknesses identified in the Urban Local-Level Government's accounting records and processes as follows:

- a) There was no system in place to adequately record and account for all of its internal revenue and the outstanding debtors (accounts receivables) that was to be reported in appendix 2 of the financial statements. In addition, no register for debtors was maintained;

- b) The duties of the officers responsible for revenue collection, monitoring, reviewing and reporting were not properly defined. No such formal document was furnished for my examination and as such I could not ascertain whether all revenues collected were brought to account and were appropriately verified by the designated officers;
- c) Segregation of duties was not applied as only a single officer was doing collection, receipting and banking. Also the safe was not utilized to keep cash and other valuables;
- d) My examination of Paid Accounts on sample basis revealed unsatisfactory matters as noted:
 - Legal and Consultancy services related payments totaling K24,400 was noted during the year. The underlying records such as contract documents and suppliers invoices were not provided in support of the payments,
 - Reimbursement of personal monies totaled to K62,613. There was no evidence to show prior approval was granted, the validity of such expenses could not be established in the absence of supporting documentations,
 - A total expenditure of K238,712 was incurred on private vehicle hires. The payments were not supported with three written quotations, suppliers invoices, payments were made from wrong budget votes; no consideration was given to the daily rates charge, numbers of days hired and genuine purposes for the hires. Also there were numerous instances where 10% GST remittance to IRC were not compliant with, and
 - Payment vouchers relating to payments incurred amounting to K22,500 were noted missing.
- e) Records relating to the minor works procurement documents such as management deliberations and endorsement, contract agreements, inspection and completion reports etc. were not made available for my examination; and
- f) The Financial Management meeting minutes and resolutions was not produced for my examination. Consequently, I was unable to determine the effect of financial implications of the major legal decisions of Financial Management Committee would have on the affairs of the Urban Local Government.

Disclaimer Audit Opinion

Because of the significance of the matters described under the basis of a disclaimer audit opinion above, I was not able to obtain sufficient appropriate audit evidence and consequently I am unable to express an opinion on the financial statements of the Mt Hagen Urban Local Level Government for the year ended 31 December, 2015.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following are matters of significance:

- the Mt Hagen Urban Local Level Government did not maintain proper accounts and records and has consequently breached *Section 68(1) of the Public Finances (Management) Act, 1995*; and
- the receipts and payments and investment of moneys and the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the *Public Finances (Management) Act, 1995* and *Organic Law on Provincial Governments and Local-level Governments*.”

6.21.3.2 Management Response

Management had not responded to the matters raised in my Management Letter. Subsequently, I was not advised of any improvement at the time of preparing this Report in September 2017.

6.21.3.4 Status Financial Statement

At the time of preparing this Report in September 2017, the Financial Statement of the Urban Local-Level Government for the year ended 31 December 2016 had not been submitted for my inspection and audit.

6.21.4 Western Highlands Provincial Health Authority

The Western Highlands Provincial Health Authority had submitted its financial statements for the year ended 31 December 2014 and the fieldwork associated with the audit of accounts and records and the examination of the financial statements were completed with the Management Letters issued and a Qualified Audit Opinion was issued to the ministers concern. The issues identified with control environments were reported in 2014 part 3 Report and hence only the financial statements issues are reproduced below:

6.21.4.1 Financial Statements - 2014

My report to the Ministers concerned and other relevant bodies under the *Organic Law and Audit Act* on the Western Highlands Provincial Health Authority's financial statements for the year ended 31 December, 2014 was issued March, 2017. The report contained a Qualified Audit Opinion and hence is reproduced below:

“Qualification

Limitation of Scope

- The statements were not signed by the Chief Executive Officer and Board Chairman as required. Subsequently, the financial statements were not presented in the format required by the Finance Instructions. This constitutes a scope limitation and affects every statement of the financial statements.

- I was unable to confirm the accuracy and completeness of the Consolidated Accumulated Fund of K44,240,560 disclosed in the financial statements due to inherited errors carried forward from previous years which were not corrected in the current year's accounts;
- In the absence of the bank reconciliations and ledgers of the project account I am unable to confirm the accuracy and completeness of the cash at bank balance of K12,759,033.68 disclosed in the financial statement;
- Stale cheques amounting to K11,285. for the Western Highlands Provincial Health Authority Account was not written back resulting in the cash at bank being overstated rendering the year-end balance unreliable and incorrect; and
- I was not able to verify the completeness and accuracy of the fixed assets due to absence of sufficient supporting documents to serve as the basis for the audit tests. In the absence of appropriate detailed assets register, I am unable to verify the completeness, existence, accuracy and value of the fixed assets totaling K3,081,570 disclosed in notes 15 to the financial statements.

Significant Control Weaknesses

There was control weaknesses identified in the Authority's accounting records and processes as follows:

- The WHPHA was using MYOB accounting software for accounting and reporting purposes. This system has not been utilized for maintenance of proper Ledgers for respective ledger accounts resulting in the limitations in the production of transactions for each ledger accounts.
- Capital Works and Maintenance Program of the WHPHA incurred total expenditure of K4,882,614. Valid Minor Works Contracts for payments totalling K401,019 were not made available for audit verification.
- I noted instances of leave fare entitlements totaling K 79,035 were processed and paid without appropriate supporting concession documentations such as the birth certificates for dependents claimed, concessions for school children and marriage certificates
- The Fixed Asset Register was not properly maintained and lacks detail information of assets recorded and there was no evidence to indicate that periodic stock takes was undertaken during the year.
- Advances register and acquittal files were not adequately updated and maintained resulting in instances of advances totalling K397,202 remained un-acquitted as at the year then ended.

Qualified Audit Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraphs above, the Financial Statements of Western Highlands Provincial Health Authority for the year ended 31 December, 2014:

- give a true and fair view of the financial position and the results of its operations for the year then ended in accordance with the Finance Instructions; and

- With exception of instance of non-compliance described under Other Matters, the financial statements have been prepared in accordance with the Finance Instructions issued under the *Public Finances (Management) Act, 1995*.

Other Matters

In accordance with the *Audit Act, 1989 (as amended)* I have duty to report on significant matters arising out of the financial statements, to which the report relates. The following is a matter of significance:

- The Western Highlands Provincial Health Authority has not prepared and submitted their financial statements to the Minister and the Auditor-General prior to 30 June for the year ending 31 December preceding, resulting in breaches of *Section 63(2)* and *Section 63(4)* of the *Public Finances Management Act, 1995*.”

6.21.4.2 Management Response

Hospital Management has responded to my Audit Management Letter queries and corrections, improvements, and adjustments noted from the management responses has been rectified with the management prior to issuing the audit report.

6.21.4.3 Status of Financial Statements

As at the time of preparing this Report, the Western Highlands Provincial Health Authority had submitted its financial statements for the year ended 31 December, 2015 for my inspection and audit. The field work associated with audit of the accounts and records and the examination of the financial statements however, could not be conducted due to manpower and financial constraints faced by my Office as well as the uncertainties associated with the recent 2017 National General Elections.

The Authority has not submitted its financial statements for the year ended 31 December 2016 for my inspection and audit.

6.21.5 Business Arms

Section 16 (2) (f) of the *Audit Act* provides for and extends my functions to audit the accounts and records of the Provincial Government Business Arms and other establishments.

I am aware of two business arms of the Western Highlands Provincial Government namely, Western Highlands Development Corporation and Western Highlands Engineering Management Limited. At the time of preparing this Report in September 2017, the business arms had not submitted any financial statements to-date for my inspection and audit. Consequently, I was unable to comment on the operations and financial results of the entities.

7. LEGAL FRAMEWORKS

7.1 Organic Law on Provincial Governments and Local-level Governments

Sections 102 and 103 of the *Organic Law* require Provincial Governments and Local-level Governments to keep proper accounts and records of their transactions and affairs, and to set up an internal control system and internal audit unit to ensure adequate financial control.

In addition, Section 114 of the *Organic Law* requires each Provincial Government and Local-level Government to submit to the Minister responsible for provincial government and local-level government matters, and the Minister responsible for finance matters, (Minister for Finance and the Minister for Provincial and Local-level Government Affairs), a full statement on the financial position and of the affairs of the Province and the Local-level Government area for each fiscal year in such a form and detail, and containing such other information as is regulated by an Act of Parliament, or as the Ministers require, before the final year sitting of the Parliament during the next fiscal year.

Section 40 (d) of the *Organic Law* provides that the law making powers of the Provincial and Local-level Governments are subject to the National Law but only to the extent that the national interest so requires, otherwise they shall have relative autonomy to operate.

The legislation clearly states that an Act of Parliament shall prevail over any law made by the Provincial or the Local-level Government Legislatures. In view of this, the *PFMA* prevails over the Provincial Legislations in respect of financial management.

7.2 Provincial Governments and Local-level Governments

Section 113 subsection 4(c) of the *Organic Law* extends the functions of the Auditor-General to inspect and audit the affairs and accounts of the Provincial and Local-level Governments.

There are 22 Provincial Governments and 319 Local-level Governments under the Auditor-General's mandate. I have continued to experience significant delays in reporting the result of these audits. Details of the causes of the delays are outlined under paragraph 1.2 of this Report. Given the lack of resources, and other constraints, my Office will continue to concentrate its efforts on the core audits being that of Provincial Governments, Hospital Boards, Urban LLGs and a sizable number of business arms.

The 22 Provincial Governments received development and recurrent funds (Appropriations) in 2016 of approximately K3,662,114, 800 billion. This represented 25% of the total National Government budget appropriation for 2016 which was K14, 208,800,000 billion. Considering the significance of the amount, these audits have remained my priority in addressing the audit arrears situation.

7.3 Hospital Boards and Provincial Health Authorities

Hospital Boards and Health Authorities within the country are established under the *Public Hospital Act* and *Provincial Health Authority Act* respectively. The Acts provide that the *PFMA* is applicable to the Boards on matters regarding accounting, financial management and reporting. That Acts also require the audit provisions contained in the *Audit Act* to apply to the Hospital Boards.

In accordance with Part 3, Section 8 of the *Audit Act*, I perform annual audits of the accounts and records and financial transactions of Hospital Boards and Health Authorities. I am also required to report to the Minister for Finance and the Minister for Health on the results of these audits.

The audits are performed so that I can obtain reasonable assurance as to whether the financial statements are free of material misstatements and amongst other things, whether the statements are prepared in a form approved by the Minister for Finance. Hospital Boards, Health Authorities being public bodies, are required to prepare their statements in accordance with the Finance Instruction 02/2004: Financial Statement Format, Trading and Non-Trading Public Bodies. These Instructions issued under Section 117 of the *PFMA* had been signed and approved by the then Secretary for Finance.

7.4 Business Arms and Subsidiary Corporations

The *Audit Act* extends the functions of the Auditor-General to include the audit of business arms and subsidiary corporations of Provincial Governments. These reporting entities report under Finance Instruction 2/2004: Financial Statement Format for Trading Public Bodies. The *PFMA* Section 62 (2) requires trading public bodies in regards to their accounts and records to observe and comply with the accounting principles generally accepted and applied in commercial practice. This includes the adoption of an accrual based accounting and applying the International Accounting Standards.

As detailed under paragraph 4.4, I continued to have significant difficulties in identifying the exact number of business arms and status of their operations. Details of these business arms and their subsidiary corporations and companies, could not be fully established due to lack of adequate information forthcoming from the Provincial Governments or due to their failure to maintain proper investment records and registers. My Office was unable to determine whether number of these business arms were still active and in operation, defunct, or liquidated.

7.5 Provincial Authorities

Provincial Authorities are established by an Act of Parliament purposely to develop infrastructure and to stimulate business activities in the respective provinces. Some of these authorities are directly involved in commercial activities as well. The majority of these authorities are required to report under the cash basis of accounting applying the standard *Financial Reporting under the Cash Basis of Accounting* issued by the International Organization of Supreme Audit Institutions (INTOSAI). The audits of the

Provincial Authorities are undertaken when the financial statements are received and when audit fees are remitted to the Office.

7.6 Other Audits

My audit responsibility also extends to include the audit of Special Purpose Funds and Trusts established by Provincial Governments. The audit of these Funds and Trusts is organized in a similar manner as the audit of business arms. The Management of these funds, as in the past, had failed to furnish financial statements on a timely basis and, as such, I was unable to carry out the respective audits on a timely basis.

7.7 Dispensation of Audits

Part 5 Section 16 (6) of the *Audit Act* states:

“The Auditor-General may, in his discretion, dispense with the whole or any part of the detailed inspection and audit of any accounts, moneys and property referred to in Subsection (2).”

Subsection 2 relates to audits of Provincial Government, Local-level Government, subsidiary corporations of a Provincial Government, a body established by a provincial law, Provincial Government Association and Provincial Government-owned company or public project.

Similarly, Part 1, Section 6 (1a) of the *Audit Act* allows the Auditor-General to dispense with all or any part of the detailed audit related to other entities.

I am of the view that conducting these audits will not reveal any new information that will be of benefit to the Parliament, the Provincial and Local-level Government or the wider public. In the case of some of the more recent audits where no financial statements have been prepared and submitted I could only conduct audit of control environment and reported the results of the audits to the Auditee management. The results of these audits, grouped by Province, are reported in Chapter 6.

It should be noted that Rural Local-level Governments could not be audited due to the following reasons:

- Expenditure mainly relates to payment of salaries; and
- Lack of resources to undertake these audits.

The Urban Local-level Governments and a Hospital problem audits are detailed in the table below had been dispensed with in June 2017.

List of Audits of Financial Statements dispensed

Entity	Year for which Financial Statements were due	Explanatory Notes
1.Kerema Urban LLG	2012	FS not prepared. Control audits done
2.Lae Urban LLG	2012	FS not prepared. Control audits done
3.Mendi Urban LLG	2012	FS not prepared. Control audits done
4.Wabag Urban LLG	2012	FS not prepared. Control audits done
5.Buka Urban LLG	2012	FS not prepared. Control audits done
6.Wewak Urban LLG	2012	FS not prepared. Control audits done
7.Kundiawa Urban LLG	2012	FS not prepared. Control audits done
8.Porgera Development Authority	2012	FS not prepared. Control audits done
9.Kavieng General Hospital	2012	FS not prepared. Control audits done

8. STATUS OF FINANCIAL STATEMENTS

In conducting my audit, I cannot be 100 percent certain that it will reveal all errors in the financial statements that, individually or in total, may be material. The size and complexity of the entity's operations, as well as cost considerations, make it impractical for me to examine all or even most of the individual revenue and expenditure transactions entered into during the year. It is also impractical for me to examine all or most of the individual transactions pertaining to the trust funds.

What I can do is verify samples of transactions and account balances, determine whether significant financial controls within the entity are working and can be relied on to produce complete and accurate data, and carry out other procedures – such as confirming year-end balances with third parties and performing analysis – to identify anomalies in the reported data.

What this comes down to is exercising professional judgment about how much auditing is required to provide reasonable assurance to users of the statements that they can rely on the reported results and not be misled.

At the conclusion of audit of the financial statements, and depending on the nature and the results of the audit, I could issue either an unqualified or a qualified audit report to the Auditee management.

An unqualified audit report is issued when the financial statements, in all material respects, give a true and fair view of the matters required by the *PFMA* and Finance Instructions issued under this Act.

Qualified audit report is issued when the financial statements do not present a true and fair view of the entity's financial position, nor of the results of its operations and its cash-flows, thereby reducing the readers' ability to analyse, interpret and compare financial statements.

8.1 Provincial Government

Table 1 – Status of Audit (Opinion) Reports – Provincial Government

Table 1		Status of Audit (Opinion) Reports – Provincial Government as at 30 September 2017			
	Provincial Government	Issued		Pending	Remarks
		Last Cycle	Current Cycle		
1	Autonomous Bougainville Government			2014-2016	
2	Central			2014-2016	
3	East New Britain	2014	2015	2016	
4	East Sepik	2014	2015	2016	
5	Eastern Highlands	2014	2015	2016	
6	Enga	2014	2015	2016	

7	Gulf			2015-2016	
8	Hela	2013-2014		2015-2016	
9	Jiwaka	2013		2014-2016	
10	Madang	2014	2015	2016	
11	Manus	2014		2015-2016	
12	Milne Bay		2014-2015	2016	
13	Morobe		2015	2016	
14	New Ireland	2014	2015	2016	
15	Oro			2014-2016	
16	Sandaun		2015	2016	
17	Simbu		2015	2016	
18	Southern Highlands	2014	2015	2016	
19	West New Britain	2014	2015	2016	
20	Western (Fly River)		2014-2015	2016	
21	Western Highlands	2014		2015-2016	
	TOTAL	13	15	33	

8.2 Local-level Government

Table 2 – Local-level Governments

#	PROVINCE	LLGs		TOTAL LLGs
		Urban	Rural	
1	Bougainville	1	-	1
2	Central	1	13	14
3	East New Britain	2	16	18
4	East Sepik	2	25	27
5	Eastern Highlands	2	22	24
6	Enga	2	15	17
7	Gulf	1	9	10
8	Hela	1	11	12
9	Jiwaka	-	6	7
10	Madang	1	18	19
11	Manus	1	11	12
12	Milne Bay	1	15	16
13	Morobe	3	30	33
14	New Ireland	1	9	10
15	Oro	1	8	9
16	Sandaun	2	16	18
17	Simbu	2	18	20
18	Southern Highlands	2	18	20
19	West New Britain	1	11	12
20	Western	3	11	14
21	Western Highlands	1	8	9
	TOTAL	31	290	321

Table 3- Status of Audit Reports - Local-level Governments

Table 3		Status of Audit (Opinion) Reports – Urban Local-level Governments as at 30 September, 2017			
	Urban Local-level Governments	Issued			Remarks
		Last Cycle	Current	Pending	
1	Alotau			2014-2016	
2	Daru		2014-2015	2016	
3	Kiunga			2014-2016	
4	AitapeLumi				Audit pending
5	Balimo				Audit pending
6	Buka			2013-2016	2012 dispensed
7	Finschaffien				Audit pending
8	Goroka			2014-2016	
9	Hagen	2012-2014	2015	2016	
10	Ialibu				Audit pending
11	Kainantu				Audit pending
12	Kavieng		2013-2014	2015-2016	
13	Kerema			2013-2016	2012 dispensed
14	Kerowagi				Audit pending
15	Kimbe			2014-2016	
16	Kundiawa			2013-2016	2012 dispensed
17	Lae			2013-2016	2012 dispensed
18	Lorengau	2014		2015-2016	
19	Madang			2014-2016	
20	Maprik		2014-2015	2016	Audit for the first time
21	Mendi			2013-2016	2012 dispensed
22	Motu Koitabu		Nil		
23	Popondetta			2013-2016	
24	Porgera - under	Dev.	Authority		
25	Tari				Audit pending
26	Rabaul	2014	2015	2016	
27	Kokopo/Vunamami	2014	2015	2016	
28	Vanimo		2012,14,15	2016	
29	Wabag			2013-2016	2012 dispensed
30	Wau/Bulolo				Audit pending
31	Wewak		2012-2015	2016	
TOTAL		6	18	53	

8.3 Hospital Boards/Health Authorities

Table 4 - Status of Audit (Opinion) Reports– Hospital Boards and Provincial Health Authorities

Table 4		Status of Audit (Opinion) Reports – Hospital as at 30 September, 2017			
	Health Authority/ Hospital Board	Issued		Pending	Remarks
		Last Cycle	Current Cycle		
1	Angau (Lae)	2010-2014	2015	2016	
2	Boram (Wewak)	2014		2015-2016	
3	Buka	2011-2012		2013-2016	

4	Daru	2011-2013	2014-2016		
5	Goroka			2014-2016	
6	Hagen		2014	2015-2016	
7	Tari			2016	
8	Kavieng			2013-2016	2012 dispensed
9	Kerema		2012-2013	2014-2016	
10	Kimbe			2013-2016	
11	Kundiawa		2015	2016	
12	Lorengau			2013-2016	
13	Mendi		2015	2016	
14	Milne Bay		2014	2015-2016	
15	Modilon (Madang)			2013-2016	
16	Nonga (Rabaul)		2014-2015	2016	
17	Port Moresby	2012-2013	2014-2015	2016	
18	Popondetta			2013-2016	
19	Vanimo		2015	2016	
20	Wabag			2015-2016	
	TOTAL	13-	16	33	

8.4 Business Arms & Subsidiary Companies

Table 5 – Status of Audit Reports–Business Arms & Subsidiary Companies – Do-able

Table 5		Status of Audit Reports – Business Arms and Subsidiaries Companies – Do-able as at 30 September, 2017			
	Business Arms & Subsidiary Companies	Issued			Remarks
		Last Cycle	Current Cycle	Pending	
1	Akogere Estates Limited			2010-2016	No FSs
2	Nokondi Investments			2010-2016	No FSs
3	Al Auto Parts			2010-2016	No FSs
4	Eastern Highlands Property Developers Ltd			2010-2016	No FSs
5	WampNga Holdings	Not Known		2008-2016	2007 audit in progress was not finalized
6	Petrohaul Limited	Not Known		2008-2016	2007 audit in progress was not finalized
7	Vegmark Limited	Not Known		2008-2016	2007 audit in progress was not finalized
8	Peninnsula Shipping Limited	Not Known		2008-2016	2007 audit in progress was not finalized
9	Kumghie Holdings	Not Yet		2013-2016	2013-15 FSs recvd
10	West Sepik Investments	Not Yet		2013-2016	2013-15 FSs recvd
11	ENBDC Ltd	Not Yet		2013-2016	2013-14 FSs recvd
	Total			78	

8.5 Provincial Authorities

Table 6 - Provincial Authorities

#	Province	Provincial Authorities	Status
1	ABG	Bougainville Restoration and Development Authority	No F/S since 2008.
2	Central	Koiari Development Authority	No F/S since 1993.
3	Central	Koiari Rural LLG Special Purpose Authority	No F/S since 2004.
4	Central	Central Province Transport Authority	Audited by me. Refer to Table 7.
5	East New Britain	Gazelle Restoration Authority	Audited by me up. Refer to Table 7.
6	Enga	Porgera LLG Special Purpose Authority (Porgera Development Authority)	Audited by me. Refer to Table 7.
7	Enga	Enga Construction Authority	No F/S since 1999.
8	Manus	Manus Shipping Authority	No F/S since 1994.
9	New Ireland	Nimamar Development Authority	No FS since 2005
10	New Ireland	Nimamar Rural LLG Special Purpose Authority	2004-2006 F/S submitted. No F/S since 2006.
11	Oro	Oro Fisheries Authority	No F/S since 1990.
12	Southern Highlands	Kutubu Development Authority	No F/S since 1996.

Table 7 - Status of Audits – Provincial Authorities – Do-able

Table 7		Status of Audit (Opinion) Reports – Provincial Authorities as at 30 September, 2017			
	Business Arms Provincial Authorities	Issued			Remarks
		Last Cycle	Current Cycle	Pending	
1	Central Province Transport Authority	2007-2010		2011-2016	
2	Gazelle Restoration Authority	2014		2015-2016	
3	Pogera Development Authority	2009-2011		2013-2015	2012 Dispensed
TOTAL		8		11	

8.6 Trusts and Funds

Table 8 – Provincial Government -Trusts and Funds

#	Province	Trusts/Funds	Status
1	Enga	Enga Mineral Revenue Stabilisation fund	No F/S since 1993.
2	Enga	Enga Children's Fund	Refer Table 9.
3	Gulf	Gulf Investment Trust Fund (GITF)	No F/S since 2004.
4	Western Highlands	Western Highlands Sports Stadium Trust	No F/S since 1995.
5	West New Britain	NBPOL Trusts 1&2	Refer Table 9.

Table 9 - Status of Audits – Trusts and Funds – Do-able

Table 9		Status of Audit (Opinion) Reports – Trust Accounts as at 30 September, 2017			
	Business Arms Trusts and Funds	Issued		Pending	Remarks
		Last Cycle	Current Cycle		
1	Enga Children's Fund Trustee Ltd	2012-2014	2015	2016	FSs received audit in progress
2	NBPOL Trusts 1&2	2013-2014		2015-2016	FSs received
	TOTAL	5	1	3	