



# Report of the Auditor-General – 2009

on the control of and on transactions with or  
concerning the public monies and property of  
Papua New Guinea

## **PART III**

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



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24 October, 2011

**The Honourable Jeffery Nape, 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 transmit to the National Parliament Part III of my Report for the year 2009.

The Part III 2009 report covered the periods from 2006 to 2008. This report embodies the results of audits of each of the Accounts of Provincial Governments and Local-level Governments, their Business Arms, Funds and Trusts, Hospital Boards and the District Treasuries on the usage of the District Improvement Program funds.

Yours sincerely,

**PHILIP NAUGA**  
*Acting Auditor-General*

**REPORT OF THE AUDITOR-GENERAL  
PART III  
FOR YEAR 2009**

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## FOREWORD

My Report to the National Parliament for 2009 is being presented in four parts as follows:

- Part I of my Report deals with the Public Accounts of Papua New Guinea (this will be tabled in early 2010).
- Part II of the Report deals with National Government Departments (this will be tabled in early 2010).
- Part III (this Part) of my 2009 Report deals with audits of the Provincial Governments, their Public Bodies and Subsidiary Corporations, Local-level Governments, Hospital Boards and some Trust Funds and District Services Improvement Program. It should be noted that with effect from 1996 fiscal year, an audit opinion on the financial statements of each Provincial Government is being issued in *accordance* with the requirements of the *Organic Law on Provincial Governments and Local-level Governments 1995*. Major financial and accounting issues which require remedial action to be taken by the Provincial Government and Local-level Government, Hospitals and government-owned businesses will be summarized in this Part of my Report in future; these issues have been taken up with the respective Provincial Administrators or Executive Management in our management letters.
- Finally, Public Bodies and Subsidiaries, National Government-owned Companies and National Government's share holdings in Other Companies are covered in Part IV of my Report. This was tabled in late 2009.

### Part III Report

It should be noted that with effect from 1996 fiscal year, I have been issuing an audit opinion on the financial statements of each *Provincial Government in accordance with requirements of the Organic Law on Provincial Governments and Local-level Governments, 1995*.

The 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 in entity's management for their comments.

This (Part III) Report provides summary of significant internal control weaknesses identified, and types of audit opinions expressed in the audits. Major financial and accounting issues which require remedial action to be taken by the Provincial and Local-level Government, Hospitals and government-owned businesses have been summarized in this Part of my Report; these issues have been taken up with the respective Provincial Administrators or Executive Management in our management letters.

Audited financial statements together with the audit opinions were also provided to the relevant Minister(s) and to the Department of Provincial and Local-level Government Affairs for tabling in the Parliament. To date I am not aware of any reports being tabled.

### **District Services Improvement Program**

I have commenced audits related to the payment of funds to each of the 89 Districts as part of the District Service Improvement Program (DSIP). The results of these audits are reported in Chapter 6 of this report.

The audits provided me with the opportunity of analyzing the management of the Program holistically. My Office's analysis as at the end of December 2009 and discussed in Chapter 6 of the Report shows that:

- DSIP funds totaling K983 million had been deposited into District Trust Accounts.
- Different amounts of DSIP funds (varying from K6 million to K14 million) had been deposited into each of the District Trust Accounts,
- Deposit totaling K67.8 million of other than DSIP funds had been placed in the Trust Accounts,
- DSIP expenditure as at 31 December 2009 was K569 million.

My general observation about the management of the DSIP is that, prior to the Program starting, insufficient consideration had been given to putting in place a workable regulatory environment to monitor whether the funds were used appropriately and that the Program was delivering goods and services as intended.

My audits of DSIP expenditure in specific Districts in 2010 will focus primarily on revealing what has been procured with the DSIP funds and secondly whether the processes have been in accordance with relevant instructions and legislation.

### **Making this Report publicly available**

This Report will be placed on the AGO website 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 Papua New Guinea 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 and on the control of and on transactions with or concerning the public moneys and property of Papua New Guinea.

The Organic Law on Provincial Governments and Local-level Governments extends these provisions to cover Provincial Governments and Local-level Governments. Section 113 requires the Auditor-General to establish a Provincial Audit Service and appoint a Provincial Auditor and additional officers in each Province. The role of the Provincial Audit Service is to maintain an effective and efficient audit service within a province, and extend the audits to the accounts, moneys and properties of Provincial Governments and Local-level Governments, including their subsidiary bodies.

At the time of this Report, no such Provincial Audit Services have been established in any of the Provinces. Presently, the Office operates Regional Audit Offices in Port Moresby (Southern), Kavieng (NGI), Mount Hagen (Highlands), Lae (Momase) and Goroka. The decision to operate regional offices was due to budgetary limitations confronted by the Papua New Guinea Auditor-General's Office. These constraints greatly affect our resources and capability in these regional offices to adequately cover all our clients based in these regions.

Section 213 of the Constitution provides that, in the performance of his constitutional duties, 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 his responsibility to report to the relevant authority.

Other than in relation to his own staff and administrative control of his own Office, neither the Constitution nor the Organic Law on Provincial Governments and Local-level Governments provide the Auditor-General any executive or directive powers over the organization subject to his audit. Although the evaluations and investigations performed under the direction of the Auditor-General assist management in detecting weaknesses in controls and procedures, in identifying causes of inefficiencies and uneconomic practices, and in recommending remedial measures, it is unacceptable for the Auditor-General to undertake executive responsibilities in relation to the formulation of accounting systems and policies or the setting of standards for administrative and accounting purposes. To assume such responsibilities may impede the Auditor-General's independence and objectivity requirements in the performance of his primary functions.

However, it has been the policy of this Office to engage into discussions with Provincial Governments and Local-level Governments on general matters in relation to accounting systems, internal controls and administrative procedures, and to provide documentation in that regard from resources available in the Auditor-General's Office. In providing such advice or information it is the practice

that the responsibility for the executive decision making remains with the Provincial Government or Local-level Government concerned.

## 1.2 Mandate of the Auditor-General

Section 7 of the Audit Act provides for the Auditor-General to report to the Parliament on the results of audits undertaken. More specifically:

- 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*; 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 attest and regularity/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 performed with the main objective of ascertaining that the expenditure had been applied for the purposes for which they had been authorized and secondly, that the expenditure conforms to authority which governs it.

In compliance with Part IV of the Audit Act, my Office is performing both attest and regularity audits concurrently and is responsible for **418** audits of different entities as shown in the table below.

ENTITY	No
Provincial Governments	19
Local-level Government	301
Hospital Boards	19
Business Arms	61
Provincial Authorities	12
Trusts and Funds	3
Other	3
<b>TOTAL</b>	<b>418</b>

It should be noted that two more Provincial Governments; Hela and Juwaka were established in 2009. These entities will be audited in the 2010/11 cycle or as soon as the provincial administrations receive appropriation funding and commence operations.

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 Provincial Governments and Local-level Government Affairs, the Minister responsible for Finance matters, Provincial and Local-level Governments concerned and the National Economic and Fiscal Commission.



There have been significant delays in my audit reports being presented to the Parliament. My Office has continued to experience considerable difficulties in carrying out timely audits due to:

- long delays and/or inaccurate presentation and disclosure of information in the financial statements by entities;
- lack of experience and competency of some Provincial Treasury and accounting personnel in provinces;
- delays in responding to issues raised in 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 constrain of my office; especially in regard to the conduct of the audits of Provincial Governments and their entities.

My Office has been adversely affected by difficulties noted above and consequent lack of funding to increase staff numbers. Nonetheless, my Office endeavors to improve on the past performances, catch up on the backlog of audits and strive to constantly deliver quality output.

## 2. SCOPE OF AUDIT

### 2.1 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 system 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 the internal audit, appropriations management, revenue and payments, human resource management processes, cash management, asset management and trust account management.

All audits were planned and performed in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants 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 can not 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 *Public Management (Finances) Act 1995* and various Finance Instructions have been adhered to.

### 2.2 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 for Finance and the Minister for Provincial and Local-level Government Affairs, a full statement on the financial position and affairs of the Province or Local-level Government for each fiscal year.

Section 40(d) of the *Organic Law on Provincial Governments and Local-level Governments* provides that the law making powers of the Provincial and Local-level Governments are subject to the National Law but only as the national interest so requires.

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 *Public Finances (Management) Act 1995* prevails over the Provincial Legislations in respect of financial management.

## 2.3 Provincial Governments and Local-level Governments

Section 113 subsection 4(c) of the *Organic Law on Provincial Governments and Local-Level Governments* extends the functions of the Auditor-General to inspect and audit the affairs and accounts of the Provincial and Local-level Governments (LLGs).

There are 19 Provincial and 301 Local-level Governments under the Auditor-General's mandate. There is a significant delay experienced in reporting the result of these audits. Details of the causes of this delay are outlined under paragraph 1.2 of this report. Given the lack of resources, and other financial 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 19 Provincial Governments received development and recurrent funds (appropriations) in 2008 of approximately K940 million. This represented 11.5% of the total State's budgeted expenditure for 2008. Considering the significance of the amount, these audits have remained my priority in addressing the audit arrears situation.

## 2.4 Hospital Boards

Hospital Boards within the country are established under the *Public Hospital Act 1994*. This Act provides that the *Public Finances (Management) Act 1995* is applicable to the Boards on matters regarding accounting, financial management and reporting. That Act also requires the audit provisions contained in the *Audit Act 1989*, (as amended), 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. I am also required to report to the Minister for Finance and the Minister for Health on the results of those audits.

The audits are performed so that I can obtain reasonable assurance as to whether the financial statements are free of material misstatement and amongst other things, whether the statements are prepared in a form approved by the Minister for Finance. Hospital Boards, being Public Bodies, are currently instructed 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 *Public Finances (Management) Act 1995* had been signed and approved by the then Secretary for Finance. There is

a "glitch" in the legislation, namely, Section 63(3) of the *Public Finances (Management) Act 1995* which requires that these financial statements are presented in a form approved by the Minister.

Consequently, as the Finance Minister has not approved the format of the statements, I have been qualifying the Hospital Boards' financial statements since 2004 until present.

In mid October 2007, my officers held discussions with senior staff members at the Department of Finance regarding this issue. It was then agreed that Department of Finance would proceed with arranging for the current Instructions to be approved by the Minister for Finance. This option was preferred as being straightforward and better compared to changing the legislation. I also wrote to the Secretary of Finance in late March 2008 regarding this issue. To this date, there was no action taken on behalf of Department of Finance to rectify this matter.

## **2.5 Business Arms and Subsidiary Corporations**

The *Audit Act 1989*(as amended) 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 Instructions 2/2004 – Financial Statement Format for Trading Public Bodies. The *Public Finances (Management) Act 1995*, 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 4.5 I have significant difficulties in identifying the correct number of business arms and 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 they were still in operation, defunct, or liquidated. The matter is continuously being pursued with the respective Provincial Governments, their business arms and other relevant authorities.

## **2.6 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. 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 Federation of Accountants.

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

## 2.7 Other Audits

My responsibility also includes 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. Managements of these funds have 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.

## 2.8 Appointment of an Agent Auditor

The provisions of the *Audit Act, 1989* (as amended) allow the Auditor-General to appoint a Registered Company Auditor as his agent to assist him in discharging his audit responsibilities as and when considered necessary. Contrary to these requirements, some 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.*"

## 2.9 Disposal of Audits

As mentioned in previous reports, this Office has continued to experience considerable difficulties in carrying out timely audits. There were long delays or incomplete submission of financial statements, due to high turnover of Provincial Government or Hospitals' accounting staff and/or lack of experience and competency of accounting staff. Of particular concern was the non-preparation of financial statements by a large number of Local-level Governments.

These problems were further aggravated by limited resources and financial constraints affecting my Office.

Due to the delays in the conduct of the audits, I have decided to apply the provisions of the Audit Act that allow me to dispense the audits.

In that connection, 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 corporation of a Provincial Government, 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.

It is my opinion that the performance of those audits will not identify any new information that will benefit the Parliament, the Provincial and Local-level Government or the wider public.

I have also written to the Minister for Finance, the Minister for Health, the Minister for Inter-Governmental Relations, the Chairman National Economic and Fiscal Commission, the Provincial Administrators and the Provincial and Local-level Governments informing them of my decision to dispense audits for the years 2005, to 2008 and for business arms from 1991 to 2006.

In the cases of some of the more recent audits where no financial statements have been prepared and submitted to me for audit, my officers have conducted audit of controls and reported on the results of those audits to the auditee's management. The results of those audits, grouped by a Province are reported in Chapter 5.

It should be noted that I have not undertaken any audit of financial statements of Rural LLGs due to the following reasons:

- The total funding provided to LLG's does not exceed 5% of the appropriation funding for Provincial Governments For example, the total funding for 2008 related to these entities was less than K40 million allocation in the 2008 budget.
- Expenditure mainly relates to payment of salaries.
- Lack of resources to undertake these audits.

The Hospitals' and Urban Local-level Governments' dispensed audits are detailed in the table below.

#### Listing of Audits of Financial Statements to be dispensed

Entity	Year for which Financial Statements were due	Explanatory Notes
Gulf Provincial Government	2008	FS not prepared. Control audits done
Gulf Provincial Government	2009	FS not prepared. Control audits done
Kerema Urban LLG	2008	FS not prepared. Control audits done
Kerema Urban LLG	2009	FS not prepared. Control audits done
Buka Urban LLG	2008	FS not prepared, however, audit of controls has been completed
Motu Koitabu LLG	2008	FS not prepared. Control audits done
Mendi Urban LLG	2005	FS not prepared
Mendi Urban LLG	2006	FS not prepared
Mendi Urban LLG	2007	FS not prepared
Mendi Urban LLG	2008	FS not prepared
Lorengau Hospital	2008	FS not prepared. Control audit done
Madang Dev. Corporation Ltd	1995-2006	1995 – 1998 Management Letter response and signed accounts not submitted. 1999 – 2006 FS not prepared.

Entity	Year for which Financial Statements were due	Explanatory Notes
Madang Slipway (formerly Binnen Marine Services)	1995-2006	FS not prepared.
Morobe Dev. Corporation Ltd	1999-2006	FS not prepared.
Niugini Produce Marketing Ltd	1999-2006	FS not prepared.
Morobe Farms/(Wawin) Ltd	1999-2006	FS not prepared.
Yalu Plantation Ltd	1999-2006	FS not prepared.
Morobe Food Processing Ltd	1999-2006	FS not prepared.
YKDC Investment Ltd	1999-2006	FS not prepared.
Morobe Food Corporation Ltd	1999-2006	FS not prepared. Entity not registered with IPA.
Morobe Dev. Eng. Services Ltd	1999-2006	FS not prepared. Entity not registered with IPA.
Umboi Timber Investment Ltd	1999-2006	FS not prepared.
Kumgie Holdings	1999-2006	FS not prepared.
East Sepik Dev. Corporation	1993-2006	FS not prepared.
Sandaun Dev. Corporation	1993-2006	FS not prepared.
Western Highlands Dev. Corporation	2005-2006	FS not prepared.
Melpa Properties Ltd	1997-2006	1997 – 2000 final signed f/s not submitted. 2001 – WP file & ML/reports missing. 2002-2006 FS not prepared.
Chimbu Holdings	1995-2006	FS not prepared. Entity not registered with IPA.
Enga Eng. Ltd	1995-2006	FS not prepared.
W.Highlands Sports Stadium Trust	1995-2006	FS not prepared. Nil records available to determine status of entity.
Enga Construction Authority	1999-2006	FS not prepared. Nil records available to determine status of entity.
Enga Mineral Rev. Stab. Fund	1993-2006	FS not prepared.
Kutubu Dev. Authority	1996-2006	FS not prepared. Nil records available to determine status of entity.

Entity	Year for which Financial Statements were due	Explanatory Notes
Gulf Papua Fisheries (Subs. of GITF)	1995-2006	1995-1996 WP files, ML & draft report missing from file. 1997-2006 FS not prepared.
Southern Star Ltd (Subs. of GITF)	1997-2006	FS not prepared.
Central Province Dev. Corporation (formerly Central Provincial Investments Ltd)	1991-2006	FS not prepared.
Koiari Holdings Ltd	1991-2006	FS not prepared.
Milne Bay Properties Ltd	1995-2006	FS not prepared.
Wyben Hotel Ltd	1995-2006	1995 - 1996 FS not prepared due to records destroyed by fire. 1997 - 2006 FS not prepared.
Fly River Doctor Services Ltd	1996-2006	FS not prepared. Entity not registered with IPA & nil records available.
Gulf Investment Trust Funds (GITF)	1996-2006	FS not prepared.
Central Prov. Transport Authority	1996-2006	FS not prepared.
Koiari LLG Special Purpose Authority (formerly KDA)	1993-2006	FS not prepared.
ENB Dev. Corporation	1995-2006	FS not prepared.
Pomio Dev. Corporation	1993-2006	FS not prepared.
South Coast Shipping Ltd	1993-2006	FS not prepared.
Barakopo Ltd	1995-2006	FS not prepared.
Islands Dev. Bureau Inc.	1995-2006	FS not prepared.
WNB Dev. Corp	2002-2006	FS not prepared.
West Farms Resources Ltd	2002-2006	FS not prepared.
Cape Hollman Corporation	1996-2006	FS not prepared.
Kimbe Frozen Food & Delic. Ltd	1998-2006	FS not prepared.
Kimbe Enterprises Ltd	1998-2006	FS not prepared.
WNB Building Supplies Ltd	1998-2006	FS not prepared.



Entity	Year for which Financial Statements were due	Explanatory Notes
Lorengau Harbourside Hotel	2000-2006	FS not prepared.
Kei Beseu Kampani Ltd	2000-2006	FS not prepared.
Manus Marine Resources	1995-2006	FS not prepared.
Manus Fishing Corporation	2003-2006	FS not prepared.
New Ireland Dev. Corp (NIDC)	1997-2006	FS not prepared.
Malagan Lodge (Subs. of NIDC)	1999-2006	FS not prepared.
NI Shipping Ltd (Subs. of NIDC)	1999-2006	Entity ceased operation in 1998. Confirmation received from management.
Sentrol Niu Ailan Dev. Corp. Ltd	1999-2006	FS not prepared.
Nimamar Investment Ltd	2002-2006	FS not prepared.
North Solomons Marine Corp.	1995-2006	FS not prepared.
North Solomons Plantation Dev. Corp.	1995-2006	FS not prepared.
Manus Shipping Authority	1994-2006	FS not prepared.
Nimamar Rural LLG Special Purpose	2004-2006	FS not prepared.

### 3. CONTROL ENVIRONMENT

#### 3.1 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. 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 continue to operate effectively. Management's 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 and Hospital Boards.

In performing the audits, my officers focused primarily on evaluation of internal controls, together with such examinations considered necessary to assess the performance of financial operations of the entity, with a view to assessing the reliability and integrity of financial data.

The audits are not required to search specifically for fraud and therefore the audits can not be 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.

#### 3.2 Responsibilities of the 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 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 *Public Finances (Management) Act 1995*, and the *Organic Law on Provincial Governments and Local-level Governments*.

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.

### 3.3 Responsibility of the Auditor-General

My audits are performed in accordance with the International Standards on Auditing as promulgated by the International Federation of Accountants 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.

Concerns about quality of financial reporting, in light of international and national corporate collapses in recent years, have led to more stringent auditing requirements and added to the importance of evidence of compliance with the standards. In turn, these additional requirements have had a direct impact on the level of my resources devoted to audits undertaken in accordance with International Standards on Auditing.

I use the International Standards on Auditing to ensure that my audits are conducted with appropriate rigor and professionalism.

### 3.4 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 in 2008 at different entities indicated that overall, there were significant weaknesses in the control environment. Control activities, such as delegations, authorisations, reconciliations, data processing, etc, were not sufficiently robust to prevent, detect or correct error or fraud.

As part of the interim audit, the AGO 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.

#### 3.4.1 Corporate Governance

During the 2008 interim audits, the AGO assessed whether an agency's control environment comprises 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 an inefficient and ineffective service delivery in that stakeholders' and the community's 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.
- Audit Committees were not established in all Provincial Governments. Audit Committees have an important role to play in reviewing and advising on important components of corporate governance.

#### 3.4.2 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 the AGO perspective, the 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 and vice versa. 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 did not have Audit Charter and Audit Plan to set out the mandate and scope of audit coverage. In majority of cases, the Provincial Government did not provide sufficient funds for the internal audit to carry out its duties during the year.

#### 3.4.2 Appropriation and Budget Management

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

Our audits disclosed that controls in agencies 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.
- The Provincial Governments on several occasions did not exercise compliance to financial instructions with regard to management and utilization of unspent funds at the 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 *Public Finances (Management) Act 1995* and the *Constitution* of the State of PNG.

#### 3.4.4 Revenue and Receivables

In addition to the appropriation revenue, the Provincial Government collects internal revenue from other sources, i.e. motor vehicle registration & renewal, issue of driver's licenses & renewal, liquor licensing, etc. Hospitals collect revenue through patient's fees. The AGO 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 19 Provincial Governments and according to the revenue ledgers, the Government has recorded significant shortfall in revenues in respect of 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 patients' fees and gifts and donations. Over the last three 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 statement, 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 up to a maximum of 33 days at times.
- There was no segregation of duties maintained between receipting and payment processing.
- There was no register of debtors maintained.

#### 3.4.5 Purchases and Payments

Strong controls over purchases and payments will 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.
- 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 (kick backs/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.

#### 3.4.6 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, 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.

The AGO observed a number of instances where salaries files of Provincial Government members and staff requested for audit were not made available. Consequently, the AGO 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 dependants for legitimacy and validity. Instances were also noted of leave tickets being refunded through a travel agent after withholding commission plus processing fee. There were several Hospitals such as Goroka and Mendi General Hospitals where controls surrounding payments of Salaries and Wages have markedly improved.

#### 3.4.7 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.

#### 3.4.8 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 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 stocktakes 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 stocktakes were not being conducted to determine the accuracy of assets on hand. This increases the risk of loss, theft or fraud.

#### 3.4.9 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 *Public Finances (Management) Act 1995* 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 the AGO 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.

### 3.5 **Conclusion**

Properly functioning internal controls are fundamental for entities in meeting their respective strategic, operational and financial responsibilities. The results of the 2008 testing of controls revealed weaknesses of such magnitude that material error could have been processed or misappropriation and fraud could have occurred.

Low managerial capability and commitment within the Provincial, Local-level Governments and Hospitals resulted in declining service delivery to the community and the public in general. Top management also failed to take action on external and internal recommendations for improvements or follow up actions on irregularities reported (including audit reports).



Although my Office is a key player in reviewing, monitoring and reporting on governance, especially financial governance, I have to stress that we are but one part of the control and monitoring processes and play a limited role in the identification and investigation of fraud or corrupt behavior.

The AGO's inclusion as a member of the National Anti-corruption Agencies (NACA) has paved the way for the Office to work closely with other important agencies and to extend the audit scope to include in-depth verification of major expenditure programs such as Capital Works, District Support Grants and Members' Discretionary Funds.

## **4. RESULTS OF THE AUDITS OF FINANCIAL STATEMENTS**

### **4.1 Audit Opinion**

Financial statement audits are an independent examination of the financial accounting and reporting of Provincial Governments, Local-level Governments, Hospitals, Business Arms of Government and other entities. The results of the examination are presented in an 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 its 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.

In giving my opinion on the financial statements, it is important to understand that I am not guaranteeing the absolute accuracy of the statements. Every year, the entities enter into thousands of transactions involving many millions of kina. Errors occur, and some may go undetected. When I audit the entity's statements, I seek reasonable assurance that they do not contain errors, the total effect of which would be material enough to mislead the reader.

In determining my audit of the entity's financial statements, I consider two main factors that determine the nature and extent of the work required. The first of these is a Kina figure called "materiality". 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 is called "audit assurance". This represents how certain I want to be that my audit will reveal total errors that equal or exceed the materiality threshold.

At the conclusion of the audit, I determine whether the effect of uncovered errors in the financial statements would mislead those who use the statements. If the effect would be to mislead, I include a qualification in my audit opinion.

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 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.

An unqualified audit report is provided when the financial statements, in all material respects, give a true and fair view of the matters required by the *Public Finances (Management) Act 1995* and Finance Instructions issued under this Act.

Qualified audit reports are 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 cashflows, thereby reducing the readers' ability to analyze, interpret and compare financial statements.

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 reasonably be 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 the auditor is unable to express an opinion on the financial report taken as a whole.

With an exception of several audit reports issued on Public Hospitals and Business Arms of Government, the audit opinions issued in the recent years on the financial statements of all the remaining entities were disclaimed. The reasons and the problems encountered are detailed in the paragraphs below.

#### **4.2 Financial Statements of Provincial and Local-level Governments**

For the last four years, I have concluded and reported that I am unable to form an opinion on each of the Provincial and Local-level Government's financial statements. Whilst in majority of cases the financial statements had been prepared in the format required by the Finance Instructions issued under the *Public Finances (Management) Act 1995*, 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.

A major factor that has contributed to such ineffective financial management processes is the top management's (Provincial/District Administrator) failure to promote measures and responsibilities for transparent and compliant spending of budget allocations. However, whilst the top management is tasked with effective management, control and accounting, the Parliament has the right to demand answers on accountability and governance issues, where the need for that is pressed.

Other factors are:

- lack of experience and competency of Provincial Treasury and accounting personnel in the provinces;
- considerable abuse and diversion of government moneys that went on unpunished for a long period of time;

- 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 Treasurer not advising the Administrator on matters relating to the financial status of the Province;
- 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; and
- on occasions, funds were being diverted from spending on Provincial/Local-level community needs to spending on the needs on the Provincial/District Treasury.

Since 1 July 2008, during the 2008/2009 audit cycle, my Office finalized and issued 35 audit reports to the Provincial Governments and 21 to Urban Local-level Governments. Details of the status reports are outlined in the tables below.

**Table 1 - Status of Audit Reports – Provincial Government**

No	Provincial Government	AUDIT OPINION REPORTS 2006 TO 2008			
		Issued	In progress	Audit yet to commence	Not submitted
1	Central	2	-	-	-
2	Fly River	1	1	-	1
3	Gulf	-	1	1	2
4	Milne Bay	1	-	-	-
5	Oro	2	-	-	-
6	East Sepik	1	-	-	-
7	Sandaun	1	-	-	-
8	Madang	2	-	-	-
9	Morobe	1	-	-	-
10	Enga	1	-	-	-
11	Eastern Highlands	1	-	-	-
12	Southern Highlands	3	-	-	-
13	Western Highlands	1	-	-	-
14	Simbu	1	-	-	-
15	Bougainville	1	-	-	-
16	West New Britain	1	-	-	-
17	East New Britain	1	-	-	-
18	Manus	1	-	-	-
19	New Ireland	1	-	-	-
	<b>TOTAL</b>	<b>23</b>	<b>2</b>	<b>1</b>	<b>3</b>

Section 113 subsection 4(c) of the *Organic Law on Provincial Governments and Local-level Governments (1995)* extends the functions of the Auditor-General to inspect and audit the affairs and accounts of the Local-level Governments.

There are currently 301 Local-level Governments around the country (except the Local-Level Governments of the Autonomous Region of Bougainville) as shown in Table 2. Of these, there are 275 Rural Local-level Governments and 26 Urban Local-level Governments in existence.

I was not able to carry out any audits of the rural Local-level Governments accounts and records as required by the Organic Law on Provincial Governments and Local-level Governments as reported in my previous years reports, because of the limited financial and human resources of my Office. During the audits of the Provincial Governments accounts, I have satisfied myself that the revenue and expenditure are largely grants and salaries and wages and that they do not exceed 5% of the total funding for Provinces. No expenditures were spent on major works and projects by the Rural Local-level Governments. During the current and previous audit cycle I have however, completed 16 audit reports regarding Urban LLGs. Unless the required levels of resources are made available to my Office, these audits may continue to be deferred and delayed well into the future.

**Table 2- Local-level Governments**

	PROVINCE	LLGs		TOTAL LLGs
		Urban	Rural	
1	Central	-	13	13
2	Oro	1	8	9
3	Gulf	1	9	10
4	Milne Bay	1	15	16
5	Fly River	3	11	14
6	Morobe	3	30	33
7	Madang	1	19	20
8	East Sepik	1	26	27
9	Sandaun	1	16	17
10	Western Highlands	1	14	15
11	Southern Highlands	3	29	32
12	Eastern Highlands	2	9	11
13	Simbu	2	18	20
14	Enga	1	13	14
15	New Ireland	1	8	9
16	West New Britain	1	10	11
17	East New Britain	2	16	18
18	Manus	1	11	12
	<b>TOTAL</b>	<b>26</b>	<b>275</b>	<b>301</b>

From July 2005 I have been in the position to carry out the audits of some of the major Urban Local-level Governments and commenced with the fiscal year ending 2004. My decision to ensure the audit of the Urban Local-Level Governments results from the materiality of the transactions of these organizations. They are also located in the main headquarters of the Provinces. During the 2008/2009 audit cycle, I have issued 21 audit reports (last year 12). The status of the audits as at end of June 2009 is summarized below:

Table 3- Status of Audit Reports – Local-level Government

No	Urban Local-level Government	AUDIT OPINION REPORTS 2006 to 2008			
		Issued	In progress	Audit yet to commence	Not submitted
1	Kerema	1	-		2
2	Daru	-	-	-	3
3	Popondetta	2	1	-	-
4	Alotau	2	1	-	-
5	Lae	-	-	3	-
6	Madang	2	1	-	-
7	Wewak	1	-	-	2
8	Vanimo	1	-	-	2
9	Rabaul	2	-	-	1
10	Kimbe	-	--	-	3
11	Kavieng	-	-	-	3
12	Lorengau	2	-	-	1
13	Buka	2	-	-	1
14	Mount Hagen	-	-	-	3*
15	Goroka	-	-	-	3
16	Mendi	-	-	-	3
17	Wabag	-	-	-	3
18	Kundiawa	2	-	-	1
19	Kiunga	2	1	-	-
20	Balimo	-	-	-	3
21	Finchaffan	-	-	-	3
22	Bulolo	-	-	-	3
23	Kokopo/Vunamami	2	-	-	1
24	Kainantu	-	-	-	3
25	Ialabu	-	-	-	3
26	Kerowagi	-	-	-	3
27	Tari	-	-	-	3
	<b>TOTAL</b>	<b>21</b>	<b>4</b>	<b>3</b>	<b>52</b>

\*For some Urban Local-level Governments although financial statements were not submitted for audit, my Office undertook controls testing during 2008. The results of the controls testing are reported under Chapter 5 of this report under the respective Provincial Governments headings.

The financial statements of both Provincial and Urban Local-level Government comprise of 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 from 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 a bank reconciliation statement. Statement "A" is intended to show the Public Account comprising the Revenue

Fund and the Trust Fund as represented by the year end cash book balances and other cash resources available to the Government.

Common problems associated with the audit of this Statement were:

- Bank confirmations for the bank accounts and Interest Bearing Deposit (IBD) Certificates were usually not provided to confirm the closing bank and investment balances.
- The cash position was also incomplete as it did not include the unspent funds transferred from Provincial Treasury operating account to Provincial Government operating account which were treated as expenditure as at the year end and balance of short-term investments held by the Government.
- Opening balances could not be confirmed as correct as these balances did not agree to the corresponding closing balances from previous year.
- There were also 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 the Statement "A" and consequently, on the financial position of the Government as at year end.

#### **4.2.2 Statement "B" - Summary of Receipts and Payments**

This Statement basically is the Operating Account and is similar to a Profit and Loss account as in commercial practice. Statement "B" is intended to show the summary of receipts actually received in Statement "J" and expenditure actually 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 Teachers 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 Teachers 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 revenues actually received and expenditure actually paid. The most common error that frequently resulted in material overstatement was the inclusion of the National Government Agencies' trust accounts. These trust accounts however, did not belong to the Provincial Government and as such 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 Finances (Management) Act 1995* were likely to have occurred due to payments made of 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 an investment register to record details of investments. There were instances where revenue was recorded arising from either interest or disposal of these investments, however, no records were made available to auditors. Consequently, I could not ensure 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 wide-spread problem. According to previous year 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 was misleading to the users of the statements and the stakeholders.

This issue is of a particular concern to me. 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, financial and statutory requirements relating to establishment of companies are properly reviewed and analyzed 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 Government to liaise with the Auditor-General's 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. To assist in recouping the State's investments, I am currently undertaking investigation into the past Provincial Governments' investments to establish their number and assess the value invested.

#### **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 Government 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 Government 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 Government 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 majority of audits there were significant and unexplained discrepancies between the total of this Statement to Statement "B".

The 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 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 cash book 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 commitments.

#### **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 the 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. Majority of Provincial Government did not report any assets, despite assets being purchased during the year.

Those entities that reported some assets, they 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 un-acquitted advances at year end. The widespread mismanagement and abuse of this entitlement is of concern to me. Provincial and Local-level Government failed to completely and accurately account for these advances. They 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 Statement

It is mandatory for the Provincial Government and the Local-level Government to prepare annual financial statements and submit them to the Auditor-General for audit. The Auditor-General then, after the completion of the audit is required to report by 30 April in the year succeeding 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.

The requirement for timely submission of the statements is frequently not met. In the 2008 financial year, only some of the Provincial Governments have provided the financial statements on time. As at 30 June 2009, there are 14 Provincial Government's 2008 statements outstanding.

##### Presentation of Financial Statement

In addition to the annual financial statements, comprising Statements from "A" to "K" and six Appendices, the accounts are accompanied by the Provincial or Local-level Government President's Statement and the Council Executive Officer's Statement on the financial operation of the Government for the fiscal year ended.

The financial statements of four 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 the management had not provided the necessary representations, this constituted a scope limitation and affected every statement presented by the management.

Another common error was a presentation error that resulted in material misstatement. In four financial statements presented by the Provincial Governments, the amounts in Statements from "A" to "K" were incorrectly presented in amounts of 'thousands' instead of the original amounts.

#### 4.3 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 on Provincial Governments and Local-level Governments require Provincial and Local-level Governments (P&LLG) to keep their accounting records proper and have sound internal control system. The P&LLG are required to manage their financial affairs in accordance with provisions of the *Public Finances (Management) Act 1995*.

The Department responsible for financial management (i.e. the Department of Finance) has been tasked to establish, develop and commission 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 District/Provincial Treasury is an accounting organization established under Section 112 of the Organic Law on Provincial Governments and Local-level Governments located at the district/province area. The District/Provincial Treasurers' functions are to ensure that all financial transactions undertaken by the P&LLG 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. District 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.

The Auditor-General's Office has the responsibility to examine the financial statements and the accounts and records of the Provincial & Local Level Governments. For the last several years the AGO has 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, the AGO continued to report inability to form an opinion on the Provincial & Local Level Government's financial statements. The situation has not improved in 2008/09.

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

- Providing or ensuring experienced and competent Treasury Offices' personnel are employed.
- Adequate risk assessment, planning, manpower or funding to undertake internal audits by the Internal Audit Units within the Provincial Government.
- Lack of coordination and communication between the Treasury Offices' personnel and Provincial and Local-level Government 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 Provincial & Local Level Government.

The Department of Finance and the Department of Treasury have to act immediately and commence proper monitoring and support of their Offices so that Provincial and Local-level Governments' finances and records are properly maintained.

#### 4.4 Financial Statements of Hospital Boards

During the last audit cycle I have issued 31 audit reports to Hospital Boards, (last year 15). Table 4 details the status of the audit reports as at 30 June 2009.

**Table 4 – Status of Audit Reports - Hospital Boards**

No	Hospital Board	AUDIT OPINION REPORTS 2006 to 2008			
		Issued	In progress	Audit yet to commence	Not submitted
1	Lae	2	1	-	-
2	Madang	2	1	-	-
3	Wewak	2	1	-	-
4	Vanimo	2	1	-	-
5	Alotau	2	1	-	-
6	Kerema	2	1	-	-
7	Daru	-	-	-	3
8	Popondetta	2	1	-	-
9	Kimbe	2	-	-	1
10	Nonga Base	-	-	-	3
11	Kavieng	-	-	-	3
12	Lorengau	-	-	-	3
13	Buka	2	-	-	1
14	Kundiawa	2	-	-	1
15	Mount Hagen	2	-	-	1
16	Goroka	2	-	-	1
17	Mendi	3	-	-	-
18	Wabag	2	-	-	1
19	POM Hospital	2	1	-	-
	<b>TOTAL</b>	<b>31</b>	<b>8</b>	<b>-</b>	<b>18</b>

\*For some Hospital Boards although financial statements were not submitted for audit, my Office undertook controls testing during 2008. Results of the controls testing are reported under Chapter 5 of this report under the respective Provincial Governments headings.

I am pleased to report that 4 Hospitals received qualified audit opinions. There were notable improvements in the area of corporate governance, budgetary controls and payments of wages and salaries compared to previous period.

Some of the audit reports that I have issued in this audit cycle contained disclaimer of the audit opinion. This was a result of significant control breakdowns, absence of records and financial statements qualifications. As discussed under paragraph 2.4, one of the qualifications was a result of the format of the financial statements not being approved by the Minister for Finance.

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 *Public Finances (Management) Act 1995* 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 sections of this Section 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 previous year.
- No advance registers were maintained. Travel advances and subsistence were frequently not acquitted. Therefore, there was 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 one instance, the Board members were not duly appointed and sworn in, in accordance with Section 6 of the *Public Hospital Act 1994*.

#### 4.5 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 writing this report in September, 2009, there were approximately 61 known entities as provided in Table 5 below. However, as reported in my previous reports and the paragraph 4.2.6 of this report, 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 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 they were still in operation, defunct, or liquidated. For the last three years, I have been continuously 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 well over ten years in some cases, as shown in Table 5.

Consequently, audit of such financial statements could not be conducted despite my repeated requests.

**Table 5 - Provincial Governments Business Arms & Subsidiary Companies**

S/N	Entity	Remarks
1	East New Britain Development Corporation	1995 – 2002 audited by private auditors. 2003 – 2008 financial statements outstanding
2	Pomio Development Corporation	1995 – 1997 financial statements received/ <i>audit fees awaited</i> . 1998-2008 financial statements outstanding
3	South Coast Shipping Ltd	1993-2000 M/L responses, signed financial statements and audit fees awaited. 2001-2008 financial statements outstanding
4	Barakopo Plantation Ltd	1995 – 1998 audited by private auditors. 1999-2003 financial statements received/ <i>audit fees awaited</i> . 2004-2008 f/s outstanding.
5	Island Development Bureau Inc.	1995 – 1998 audited by private auditors. 1999-2001 financial statements received/audit fees awaited. 2002-2008 financial statements outstanding.
6	West New Britain Development Corporation	2002-2004 financial statements received/ <i>audit fees awaited</i> . 2005-2008 financial statements outstanding.
7	West New Britain Building Supplies Ltd	1998 – 2008 financial statements outstanding
8	Kimbe Enterprises Ltd	1998 – 2008 financial statements outstanding
9	Kimbe Frozen Food and Delicatessen Ltd	1998 – 2008 financial statements outstanding
10	West Farm Resources Ltd	2002 – 2008 financial statements outstanding
11	Cape Hollman Corporation Ltd	1998-2008 financial statements outstanding.
12	New Ireland Development Corporation Ltd	1997-2004 financial statements received. Audit to commence soon. 2005-2008 financial statements outstanding.
13	Malagan Lodge Ltd	1997-2004 financial statements received/ <i>audit fees awaited</i> . 2005-2008 financial statements outstanding.
14	New Ireland Shipping Ltd	1999-2002 financial statements received/ <i>audit fees awaited</i> . 2003-2008 financial statements outstanding.
15	Nimamar Investment Ltd	1999 – 2001 audited by private auditors. 2002 signed financial statements awaited, 2003 – 2004 audit fees awaited. 2005-2008 financial statements outstanding.
16	Sentral Niu Ailan Development Corporation Ltd	1999-2008 financial statements outstanding.
17	Lorengau Haborside Hotel Ltd	2000-2006 audited by private auditors. 2007 – 2008 financial statement awaited.

S/N	Entity	Remarks
18	Kei Beseu Kampani Ltd	2000 – 2006 audited by private auditors, 2007 – 2008 financial statements awaited.
19	Manus Marine Resources	1995 – 2008 financial statements outstanding.
20	Manus Fishing Corporation	2004 – 2008 financial statements outstanding.
21	Nokondi Investments Ltd	1998-2003 dispensed, 2004 – 2008 await M/L response & signed financial statements.
22	Als Auto Repair Ltd	1998-2003 dispensed, 2004 – 2008 await M/L response & signed financial statements.
23	Akogere Estates Ltd	1998-2003 dispensed, 2004 – 2008 await M/L response & signed financial statements.
24	South Bougainville Engineering Ltd	1997 – 2004 fees part paid, audit to commence shortly, 2005 – 2008 financial statements awaited.
25	North Solomons Marine Corporation Ltd	1995-2008 financial statements outstanding. <i>Status &amp; audit to be determined.</i>
26	North Solomons Plantation Development Corporation Ltd	1995-2008 financial statements outstanding. Status & audit to be determined.
27	Wamp Nga Holdings Ltd	2006 and 2007 audits in progress. 2008 financial statements not submitted.
28	Petrohaul Ltd	2006 and 2007 audits in progress. 2008 financial statements not submitted.
29	Vegmark Ltd	2006 and 2007 audits in progress. 2008 financial statements not submitted.
30	Melpa Properties Ltd	1997 - 2001 signed financial statements awaited. 2002 - 2008 financial statements not received
31	Western Highlands Development Corporation Ltd	1995 - 2008 financial statements outstanding.
32	Peninsula Shipping Lines (PNG) Ltd	2006 – 2007 audits in progress.
33	Simbu Holdings Ltd	1995 - 2008 financial statements outstanding.
34	Enga Engineering Ltd	1995 – 2008 financial statements not received.
35	Enga Children's Fund Trustee Ltd	2001 – 2006 reports await working paper review responses. 2007 – 2008 await audit fees.
36	Morobe Development Corporation Ltd	1999 financial statements received. 2000-2008 financial statements outstanding.
37	Kumgie Holdings Ltd	1999 - 2006 financial statements received. Audits to be outsourced. 2007 – 2008 financial statements not submitted.
38	Niugini Produce Marketing Ltd	1999 financial statements received. No recent financial statements.
39	Morobe Farms(Wawin) Ltd	1999 financial statements received. 2000 – 2008 financial statements not submitted.
40	Yalu Plantation Ltd	1999 financial statements received. 2000 – 2008 financial statements awaited.



S/N	Entity	Remarks
41	Morobe Food Processing Ltd	1999-2008 financial statements outstanding.
42	Morobe Food Corporation Ltd	1999 – 2008 financial statements outstanding.
43	YKDC Investment Ltd	1999 - 2008 financial statements outstanding.
44	Umboi Timber Ltd	1999 - 2008 financial statements outstanding.
45	Morobe Development Engineering Services Ltd	1999 financial statements received. 2000 – 2008 financial statements outstanding.
46	Madang Development Corporation Ltd	1995 – 1996 M/L responses & signed financial statements awaited. 1997 – 1998 audit fees awaited. 1999 – 2008 financial statements not submitted.
47	Madang Shipway (formerly, Binen Marine Services)	1995 – 1996 M/L responses & signed financial statements awaited. 1997 – 1998 audit fees awaited. 1999 – 2008 financial statements not submitted.
48	East Sepik Development Corporation Ltd	1993 - 2001 financial statements received/ <i>audit fees awaited</i> . 2002 - 2008 financial statements outstanding.
49	Milne Bay Properties Ltd	1995-2008 financial statements outstanding.
50	Central Province Development Corporation Ltd	1991 - 2004 financial statements outstanding. (Now Central Province Investments Ltd.)
51	Koiari Holdings Ltd	1995 - 2008 financial statements outstanding.
52	Central Province Investments Ltd	2005 – 2008 financial statements outstanding
53	Wyben Hotel Ltd	1995 - 2008 financial statements outstanding.
54	Fly River Doctor Services Ltd	1996 - 2008 financial statements outstanding.
55	Gulf Papua Fisheries Ltd	1997 - 2000 financial statements received, audit fees awaited. 2001 - 2008 financial statements outstanding.
56	Southern Start Ltd	2002 financial statements received. 2003 – 2008 financial statements not received
57	Ambogo Sawmill	No recent financial statements
58	Higaturu Motors	No recent financial statements
59	Credit Corporation	No recent financial statements
60	Zamo Pool	No recent financial statements
61	Central Marketing Agency	No recent financial statements

Details of the results of the audit of the financial statements of the above entities are reported in Chapter 5 under the respective provincial Governments' headings.

#### 4.6 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 the Office.

As at 30 June 2009, the status of audits relating to the Provincial Authorities is summarized as shown in Table 6.

**Table 6- Status of Audits – Provincial Authorities**

	Provincial Authority	Year Financial Statement not received	Year Financial Statement received	Report Issued	Field Work in Progress
1	Koiari Development Authority	1993 – 2003			
2	Koiari Local-Level Government Special Purposes Authority (formerly Koiari Development Authority)	2004 – 2008	-	-	
3	Porgera Local-Level Government Special Purpose Authority		2007 – 2008	-	Done
4	Kutubu Development Authority	1996 – 2008			
5	Gazelle Restoration Authority		2008	1	Done
6	Nimamar Development Authority			3	
7	Manus Shipping Authority	1994 – 2008			
8	Nimamar Local-Level Government Special Purpose Authority	2007 – 2008	2004 – 2006		
9	Enga Construction Authority	1999 – 2008			
10	Central Provincial Transport Authority	1997 – 2008			
11	Bougainville Restoration & Development Authority	2008			
12	Oro Fisheries Authority	1990 – 2008			
<b>TOTAL</b>		<b>88</b>	<b>6</b>	<b>4</b>	<b>4</b>

Details of the results of the audit of the financial statements of the above entities are reported in Chapter 5 under the respective provincial Governments' headings.

## 4.7 Other Audits

### 4.7.1 Trusts and Funds

My responsibility also includes 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. Previously, I have reported that management of these funds have 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. The management of these trust funds have also not communicated to my office to confirm the current status of these organizations.

**Table 7– Outstanding audits of Funds and Trusts**

	Trusts/Funds	Year	Remarks
1	Western Highlands Sports Stadium Trust	1995 – 2008	Financial Statements not submitted/status not known
2	Enga Mineral Revenue Stabilization Fund	1993 – 2008	Financial Statements outstanding.
3	Gulf Investments Trust Funds	2004 – 2008	Financial Statements outstanding

Details of the results of the audit of the financial statements of the above entities are reported in Chapter 5 under the respective provincial Governments' headings.

### 4.7.2 Other Audits

In addition to the audits covered in the preceding paragraphs, this Office has also carried out a number of other audits. These are Wewak Storm Water Drainage, Islands Development Bureau (Inc.) and PNG Urban Local-Level Government Association.

Details of the results of the audit of the financial statements of the above entities are reported in Chapter 5 under the respective provincial Governments' headings.

## 4.8 Audit Fees

The Government of Papua New Guinea 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 estimated minimal audit work 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 length 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.

To address this problem, I intend to:

- Liaise with the Department of Finance on preparing guidelines regarding establishment of new business arms or authorities. This will include strict instruction to the Provincial and Local-level Government to discontinue with funding of these entities through grants, if audited financial statements are not provided.
- Request additional funding from the Parliament to facilitate the audit on the financial statements of these entities.
- Pursue with Provincial Governments through dialog, the additional information and options for these entities.
- In some cases, advise the Government to do away with all these investments as these entities do not bring the investments returns as expected.

#### **4.9 Tabling of Reports**

Organic Law, as well as the Audit Act requires that I furnish before 30 April of the following year, audit reports on the accounts of Provincial or Local-level Government to the respective Ministers. Prior to October 2007 in addition to furnishing reports, I voluntarily undertook printing and tabling those reports in the Parliament. This responsibility however, rests with the Department of Provincial and Local-level Government Affairs.

Since October 2007, due to staff constraints and excessive printing costs, I discontinued with printing and tabling and have informed (in writing and through meetings) the Department of Provincial and Local-level Government Affairs. Due to the change in this process, I have no knowledge as to whether these reports (referred to in Tables 1, 3 and 4) were tabled and/or how many of them had been tabled.

On 28 October, 2008 I received a copy of a letter from the Secretary of the Provincial and Local-level Government Affairs that printing and tabling of reports will be undertaken by them. There was a decision made No.99/2009 by the National Executive Council to allocate funds on 1<sup>st</sup> July, 2009 to the Provincial and Local-level Government Affairs for printing costs. We are currently liaising with the Provincial and Local level Government Affairs and we are providing information regarding the printing and tabling of the Audit Reports issued.

## 5. RESULTS OF AUDITS PER PROVINCE

### 5.1 BOUGAINVILLE AUTONOMOUS GOVERNMENT

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Bougainville Autonomous Government	2009	2008	June 2010 Disclaimer	Significant issues identified
Buka Hospital Board	2008	2008	June 2010 Qualified	Significant issues identified
Buka Urban Council	2006			Audit of financial statements for 2007 & 2008 were dispensed due to non-submission . Audit of the Controls identified significant issues.
South Bougainville Engineering	1997 - 2004	1997 - 2004	March 2010 Disclaimer	Financial statements for 2005-2008 awaited
North Solomon Marine Corporation	No financial statements since 1992			Entity deregistered on 12 September, 1996. 1995 to 2006 audits to be dispensed
North Solomon Plantation Development Corporation	No financial statements since 1983			Entity deregistered on 10 October, 1996. 1995 to 2006 audits to be dispensed.
Bougainville Restoration and Development Authority				No recent statements submitted for audit

#### 5.1.1 Bougainville Autonomous Government

##### Financial Statements

The financial statements of the Autonomous Bougainville Government for 2008 contained numerous errors and material misstatements. Documentation related to important balances presented in the statements was not made available for examination. Subsequently, I issued a disclaimed audit opinion. Some of the major issues are detailed below:

- *Finance Instruction 02/2004* issued under Section 117 of the *Public Finances (Management) Act 1995* state the prescribed format for the preparation of

the financial statements for Provincial Governments. The financial statements of the Autonomous Bougainville Government were not signed by the Provincial Administrator and the Provincial Treasurer as required. This constituted a scope limitation and affected every statement presented by the management.

- The financial statements of the Autonomous Bougainville Government for the year ended 31 December 2008 were misleading as a result of error in the presentation of the statements. In all the statements, the amounts were incorrectly presented in amounts of 'thousands' instead of the original amounts.
- This statement showed ten (10) trust accounts of which nine (9) were non bank trust accounts. These accounts did not have trust instruments as required under the *Public Finances (Management) Act 1995* and as highlighted in my previous year report. Further, a bank trust account namely, Bougainville Governance Implementation Fund Imprest account was not disclosed in the statements.
- Grant adjustment of K1,110,700 could not be ascertained and verified as the general ledger showed an amount of K1,700,600. No explanation for the difference of K689,900 was provided.
- Autonomous Bougainville Government budget estimates for 2008 included donor funding of K15,484,100. Audit was unable to ascertain how much donor funding was received and from whom; as donor funding was not distinguished from ABG's internal revenue and national Government Grants. Moreover, the Autonomous Government did not distinguish between its expenditure from expenditure for the projects funded by donors. Consequently, I was unable to verify the total donor funding received or expenditure made out of the donor funding.
- District Support Grant of K2,250,000 were paid directly to each District Treasury bank account. Although presented in the financial statements, these monies were not recorded in the Government's ledgers as these monies were not banked into the operating bank accounts.

#### Investments

The Autonomous Government reported investments of K2,841,492 held in six companies. As reported in previous years, four of these investments totaling K2,803,002 may have been lost because of the Bougainville crisis and should be written off. In the absence of investments register, share certificates, the companies' audited financial statements and other documentation, I was not able to ascertain the value of the investments held as at the 31 December, 2008.

The Autonomous Government further reported investments of K3m in short term deposits and K1m in call account held by Capital Development Assets (CDA) on behalf of the Bougainville Resource Capacity Building Trust Fund. Capital Development Assets (CDA) has not been licensed or authorized to accept or collect deposits from the public in accordance with the *Banks and Financial Institutions Act 2000*. Investing money in unregistered and unauthorized institution

poses significant risk of funds going missing as the interest of the depositors could not be protected under the *Banks and Financial Institutions Act 2000*.

I have also noted that Bougainville Resource Capacity Building Trust Fund held K1m ordinary shares and K1m preference shares in Bougenvil Nominee Ltd which had ceased operations on 12 October 2009. Evidence of return of capital after settlement of liabilities of the Company was not furnished for my review.

In the absence of audited financial statements and other related information of the above companies, I was unable to verify the existence, ownership and value of investments owned by the Autonomous Government.

#### Assets

The Autonomous Government reported assets totaling K4,227,504 as at the year end. The same amount was disclosed in 2007. However, review of the expenditure ledgers revealed that assets totaling K2,093,163 were purchased during the year. Assets Register providing details of these assets were not provided. In the absence of a complete Assets Register and annual stock-takes, I was unable to confirm the existence and completeness and values of assets owned by the Autonomous Bougainville Government as at 31 December, 2008.

#### Capital Works and Maintenance

I have reviewed the progress of projects that were due for completion in 2006 and 2007. My officers inspected the building sites and identified incomplete work and slow progress. The ABG should seriously address this problem where contractors fail to complete the projects worth millions of kina of public funds. In particular, the Technical Services Division (Building Section) should be held responsible for the failed or incomplete projects delayed for more than two years after the expiry of the completion date. These Officers should be administering, supervising and monitoring the projects at all levels, report the anomalies and take appropriate action, such as imposing penalties of non compliance in relation to the contract agreement. One factor that contributed to such poor state of affairs is that the contract agreements did not detail terms and conditions with penalty clauses.

Most of the contractors did not adhere or comply with the original contracts. It appeared that their requests for extension of the completion date were purposely to be obtaining more funding from the Government. I also noted that the variations submitted did not go to the Supply and Tenders Board Committee or any other independent valuer for verification and approval, instead the approval was granted by the Chief Executive Officer of the Technical Services Division.

I noted that a company owned by the then Governor of Bougainville was engaged by the ABG to carry out construction work that was never completed, this amounts to a conflict of interest that may be rife.

The following are examples of construction work that is yet to be completed:

*Staff Houses at Kubu*

The contract was awarded to Bututu Building Construction on 20 December 2006 to construct 14 x 3 Bedroom staff houses for ABG at Kubu at a contract price of K1,280,000. The project was to be completed by 13 April 2007. However, a total of K1,320,757 had already been spent on the project with variations. At the time of the audit and the project site inspection in January, 2010 the buildings remained incomplete.

*Staff Houses at Tinputz*

The contract was awarded to Quella Alliance & Consultancy Ltd to construct 1 x D/Office and 3 x staff houses at Tinputz on 25 November 2005 at the contract cost of K478,000. The project was to be executed for 50 days from the commencement date and the practical completion date was 30 April 2006.

At the time of the audit in January, 2010 the project remained incomplete due to incidences of theft of building materials and other discrepancies that needed to be addressed.

The ABG, through the Technical Services Division (Building Section) has done nothing concrete to follow up on this matter and resolve it so that the project is completed for the benefit of the stakeholders and especially the people of Tinputz.

*Buka District Office Extension*

The contract was awarded to Pemana Ltd (owned by the then Governor for Bougainville) for the construction of Buka District Office extension for ABG on 26 September 2005. The project was to be executed in 150 days starting from the commencement date with a completion date of 28 March 2006. The contract cost was K324,964. There was a revised contract price of K278,866 signed by ABG and contractor on 22 November 2006.

In March 2010 the AGO visited the building site. The building was incomplete and the construction site was unattended. It was revealed that AusAid (though GIF) would fund the project for its completion. It was not clear which contractor is supposed to complete this project.

*Minister's Houses*

The contract was awarded to Pemana Ltd (owned by the then Governor for Bougainville) for the construction of 5xABG Houses on Sohano Island, Buka, on 26 September 2005. The project was to be executed for 240 days with a completion date of 30 September 2006. The contract cost was K942,249. There was also a variation of K237,463 solely approved by the acting Chief Executive Officer, Technical Services Division that brings the total to K1,179,712.



On 5 of February 2009, during the course of my audit, I visited the building site. The building was still incomplete and the construction site was unattended. I was informed that AusAid (through GIF) would fund the project for its completion.

My audit also revealed that one of the five (5) houses is currently rented by the Post Courier personnel and the rentals were paid to Pemana Ltd (owned by the then Governor for Bougainville). It is unclear how a property owned by the Autonomous Bougainville Government is being taken over by the Governor's owned company without any due process. The Autonomous Bougainville Government should investigate this matter so that the property is taken back and the rentals already paid to Pemana Ltd be recouped.

#### *NC Civil Works*

The road sealing contract was awarded to NC Civil Works by Bougainville Executive Council as per special meeting 14/2009 - Decision 82/2009 at the total cost of K2,999,613. A certificate of inexpediency was signed for this contract stating that ABG failed to get favorable response from other contractors. The (NC Civil Works) was claimed to have the resources, capacity, materials and equipment to undertake the project.

The first payment was made on 23 September, 2009 for an amount of K1,231,231. At the time of the audit (early 2010), the sealing was yet to be commenced neither the machineries were on site.

#### Travel Costs and Acquittals

The duty travel of all the officers (Provincial & District) was not properly acquitted after the completion of the official trips. There was also no proper approval by the authorized personnel to authenticate the travels.

Significant amount of money was spent on travel with little or no benefit to ABG. Some Officers travelled once every month to Port Moresby and spent at least two (2) weeks incurring costs in the vicinity of K30,000 per trip.

As stipulated in the General Orders, officers should acquit immediately within seven (7) days after returning from the official trip. This includes the purpose of the official trip and proper approval by authorized personnel (CEO/Board or the Ministers and EMs for District Offices staff).

ABG should take control measures to cut down on travels and to operate within the yearly budget.

In addition, there were lot of advances given out for various activities such as reconciliations, opening ceremonies, conferences, etc, where the cheques were drawn under individual names (facilitators) that were still not acquitted by the responsible individuals. For example, a staff member received K101,860 for organizing a workshop without proper acquittal procedure. When there is no proper acquittal the risk of misappropriating the money is very high.

### K1 million disbursement by the Governor of Bougainville

Disbursement of public funds should follow correct procedures of three (3) quotations, tender processes and APC for amount of K300,000 and above. It is a breach of *Public Finances (Management) Act, 1995* if proper procurement processes are not followed. This practice could also lead to misappropriation, fraud, or/and misuse of public funds.

An amount of K1,000,000 was disbursed by the then Governor of Bougainville to various projects in North Bougainville. An amount of K300,000 was provided to Solonakori Coconut & Cocoa Seed Garden and to Buka Management Ltd without following proper procurement procedures. The disbursement of these funds is also dubious as one of the companies (Solonakori) is owned by the Governor's wife. Development Funds cannot be paid to a Member of Parliament or his relative or any associated firms due to conflict of interest.

An amount of K71,500 was paid to Menton group Ltd for the final payment of the Boat (Buka Prince) that is managed by Buka Management Ltd. The purpose of the funds paid to Buka Management Ltd for MV Buka Prince is not known as the boat (Mv Buka Prince) was lying idle in the Buka Passage near Sohano Island at the time of the audit in December, 2009.

### Management of Human Resources

My review of the processes and procedures in management of human resources revealed absence of internal controls which led to possible fraud and misappropriation of public moneys as follows:

- Payroll reconciliation has not been performed at all and the risk of ghost names, wrong rates used was very high in the salary and allowances expenditure. Further, no staff history cards were maintained.
- No leave schedules were issued for staff going on leave, and as a result final entitlements and loss of recreation leave claims were submitted for payments as noted below not complying with the General Orders and DPM guidelines.
- Overtime payments were made to senior officers who were not entitled to these allowances.
- There were three (3) officers who received their final entitlements for working in the public service for a number of years. Entitlements for one staff were not taxed (which is in breach of the Income Tax Act) and the calculation of the entitlements for the other two employees was incorrect. Furthermore, there were no records to confirm whether the two officers had valid contracts in place as they were working under the NSP Secretariat. For payments under the terms of the NSP Secretariat they should have liaised with DPM and Department of Finance to pursue their claims. In addition, no verification was done by the a/Deputy Administrator (operations), HRD personnel and the Provincial Treasurer to confirm the validity of the claim to effect the payments. There were no funds budgeted and no ABG EC

approval under the appropriation to effect such payment breaching the ABG Appropriation Act.

- Three officers were paid for loss of leave entitlements. Their leave was overdue for 2 years and 6 months and therefore, all leave entitlements under General Order 14.33 should have been forfeited to the State unless prior approval from the Departmental Head was obtained. Prior approvals from the Department Head regarding the delay of their leave have not been sighted and the staff should not have been on the payroll when they had their entitlements paid. I have therefore recommended that the three officers repaid the amounts (through salary deductions to recoup the money). In addition, the leave entitlements were not processed through the Concept Payroll as there were no funds budgeted for such claims. Further, the calculation of the tax component was erroneous.

### Transport

I noted during the course of the audit that the Autonomous Bougainville Government has purchased number of 4WD vehicles such as Toyota Landcruisers (10 seaters, Toyota Hilux d/cab 5<sup>th</sup> elements, Ford Rangers and others) during the year. It was observed that there was no proper control and that vehicles were used on non official duties, driven by unauthorized persons after hours and on weekends.

My review of the assets register maintenance for the vehicles revealed that the costs of most vehicles were not shown indicating poor monitoring of motor vehicles.

### Payments that warrant further investigation

Audit review of Capital Project payments revealed that an amount of K4.1 million was deposited in to the ABG Operating Account by the Department of National Planning and Monitoring on 19 December, 2008. However, the then Governor instructed the ABG to withdraw the funds to be paid to the following entities:

- Millennium Water Limited - K2.7 million for the construction of water supply for Buka General Hospital; and
- Hastings Deering Ltd - K1.4 million for the purchase of heavy machineries for North Bougainville.

According to the Investment Promotion Authority's records, Millennium Water Ltd is a deregistered company. This Office has not sighted any Central or Provincial Supply and Tenders Board approval or contract agreement to award the contract to Millennium Water Ltd for the construction of water supplies as per the requirement under Section 39 of the *Public Finances (Management) Act*. There was also no evidence provided that tenders were called for the construction of water supply for the Buka General Hospital. Review of the funds paid to Millennium Water Ltd revealed that funds were not used for the intended purpose – Buka Gen. Hospital Water Supply project, but diverted to unrelated individuals and firms. For example, a sum K470,000 was paid to Solonakori Cocoa (a business entity where the wife of the Governor was a director). I could not ascertain the

purpose for which many of the payments were made. There was a significant risk that monies intended for this project were misused. This Office recommended that Buka General Hospital and the Autonomous Government carry out an investigation on the usage of these funds. As at the date of this report, there was no evidence to indicate that the construction of the water reservoir had taken place at the Hospital

Furthermore, I could not establish which Government organization or Division of the Autonomous Bougainville Government was responsible for the heavy machinery that was purchased from Hasting Deering totaling K1.4 million. The heavy machinery was purchased with public funds and should be allocated to an organization or Division or Department of the Autonomous Bougainville Government for the purpose of custodianship. At the time of the audit in December 2009, the machinery was located in the Governor's village.

#### Bougainville Resources Capacity Building Trust Account

The Minister for Finance and Planning authorized the Autonomous Bougainville Government to establish the Bougainville Resources Capacity Building Trust Fund (BRCBTF) to hold moneys from Invincible Resources Corporation of Canada and other moneys raised for the purpose of the account to meet expenditure relating to:

- Strengthening the capacity of the ABG Administration;
- Strengthening the peace process; and
- Strengthening the private sector through the financial institutions credit.

The Invincible Resources Corporation agreed to provide funding of K20 million to ABG for the above mentioned objectives. The first installment of the funding of K2 million was paid in 2005 and the money was applied as follows:

- Acquired 100 ordinary shares of Bougenvil Nominee Ltd at a cost of K100 on 9 May 2006.
- Opened a 'Call Account' with K999,990 with Capital Development Assets (CDA) on 9 May 2006.
- Invested K1 million in term deposit with CDA for three months on 9 May 2006.

In 2006, the balance of K18 million was deposited into BRCBTF account with BSP, Buka. BRCBTF withdrew K3 million from the BSP account and invested it in term deposit with CDA as a guarantee for loans for some business houses. CDA then approved and granted loans to business houses using the K3 million as security.

I observed that CDA has conducted the business of accepting and collecting deposits from the public although CDA has not been licensed or authorized in accordance with the *Banks and Financial Institutions Act 2000*.

When the 'Call Account' was overdrawn, the K1 million term deposits were applied as security for the overdrawn balance of the 'Call Account'. CDA advised BRCBTF that it had exercised its lien over the two term deposits for the following reasons: BRCBTF had overdrawn its cash account, Business loans had

fallen into arrears; and other advances guaranteed and secured against term deposit had also defaulted.

As a result of the above, CDA exercised its lien over the two term deposits (IBDs for K1m and K3m). On 30 September 2008, upon the advice of CDA, BRCBTF utilized K2 million of its term deposit of K3 million to purchase K1 million ordinary and K1 million preference shares of Bougainvil Nominee Ltd.

Also, at the request of CDA, BRCBTF authorized CDA to offset the accrued interest on the overdrawn 'Call account' with accrued interest on K3 million term deposits which had been used as guarantee for loans.

On the day the then President died, the Bougainville Executive Council (BEC) directed BRCBTF to bear portion of the President's funeral cost without the knowledge that the funds of BRCBTF had been over-committed and CDA held lien over the funds.

BRCBTF then directed CDA to continue to overdraw the call account to meet part of the funeral costs of K363,140.

In order to settle the overdraft, BRCBTF directed the sale of some of its shares it held in BSP. The sale proceeds from the disposal of about 555,556 shares received from PNG Shares Registry was K636,000. Out of the sale proceeds, K236,052 was to be paid to CDA to settle the overdraft as well as additional K85,200 of funeral related costs. These sums did not appear to have been settled.

The statement of affairs of BRCBTF as at 29 October, 2009 detailed below was prepared from BRCBTF account:

BRCBTF statement of Affairs as at 29 October, 2009

Assets	
Term Deposits with CDA	K2,125,214
Bougainvil Nominee Ltd shares	K2,000,100
BSP Shares (Number of Shares 2,439,114)	K1,707,379
Property	<u>K1,600,000</u>
	<u>K7,432,693</u>
Liabilities	
Call Account with CDA	K 236,052
Claims against CDA for funeral cost	K 85,200
Additional Advances (loan & overdraft)	<u>K 132,043</u>
	<u>K 453,295</u>

The term deposits of K2,125,214 was a collateral security for BRCBTF overdraft with CDA and loans of K3 million which BRCBTF had requested CDA to grant to some business houses.

BRCBTF (on the advice of CDA) withdrew a sum of K2 million from the K3 million term deposit held as collateral security and acquired Bougainvil Nominee Ltd K1 million ordinary shares and K1 million preference shares and as a result the collateral security for the K3 million loans was reduced to K1 million.

*Bougenvil Nominee Ltd*

BRCBTF holds K1 million ordinary shares and K1 million preference shares. The company ceased operations on 12 October 2009.

*BSP shares*

BRCBTF holds 2,439,114 ordinary shares in BSP. Audit could not confirm number of shares purchased and/or sold in the absence of supporting documentation.

*Property*

A sum of K1.6 million was sunk into the development of housing for senior public servants at Kubu however, progress reports showing the stages of development of the property were not furnished for review.

*Liabilities*

Call Account Overdraft of K236,052 is secured by term deposit of K1,110,214.

Funeral cost of K85,200 outstanding is a claim against CDA.

Additional loans and overdraft facility of K132,043 granted to BRCBTF by CDA.

Also, BRCBTF's guarantee of K3 million term deposits as security for K3 million loans granted by CDA to some business houses was reduced by K2 million on the advice of CDA to BRCBTF to purchase K1 million ordinary shares and K1 million preference shares of Bougenvil Nominee Ltd. As a result of the above, guarantee for K3 million loans is secured by only K1 million term deposits.

I noted that a major trustee of BRCBTF was a director and also a shareholder of CDA. He held 34.5% of shares in CDA, a conflict of interest.

I further noted that Dowi Limited had the same trustee as one of its forty-one shareholders who held 32.7% shares in CDA.

Furthermore, BRCBTF's investment of 100 ordinary shares was increased by K1m on the advice of CDA in September 2008 when Bogenvil Nominee Ltd was strapped of cash. Bougenvil Nominee Limited ceased operation just a year after receipt of cash injection of K2m. Evidence of return of capital after settlement of liabilities of the company was not furnished for my review.

The name of the same trustee from BRCBTF and CDA appear as shareholders in Bogenvil Nominee Limited.

I observed from the current extract for Bogenvil Nominee Limited obtained from IPA on 11 May 2010 that the total number of ordinary shares issued were four thousand excluded one million one hundred ordinary shares and one million preference shares issued to BRCBTF. The directors' failure to file annual return containing changes to the total number of different classes of shares issued was in breach of Section 215 of the *Companies Act 1997*. On the basis of the above observations, it is concluded that:

- CDA has conducted the business of accepting or collecting deposits from the public despite being not registered in accordance with the *Banks and Financial Institutions Act 2000*. The public funds invested in CDA could also be at risk of being lost, as there is no protection over the deposits.
- Bogenvil Nominee Limited as noted above, ceased operations merely a year after receipt of K2m.
- Conflict of interest existed (rife) and there were related parties transactions which could have contributed to misappropriation of money.

The audit report containing details of all the above issues was sent to the Secretary of Treasury, Secretary of Planning, Commissioner of Taxation and the Chief Ombudsman for their further action.

#### 5.1.2. Buka Hospital Board

I have audited Buka General Hospital's financial statements for the year ended 31 December, 2008 and issued a qualified audit opinion. The Hospital has improved on its corporate governance issues, revenue collection and assets recording, which resulted in obtaining qualified opinion instead of disclaimer as in the past. The management has responded positively to audit findings and is actively working on resolving the reported control weaknesses.

The issues identified in 2008 are detailed in the paragraphs below:

- The General Hospital maintained an assets register for fixed assets purchased or donated to date. However, there was no evidence that stock take was conducted during the year to ensure their existence and usage.
- There were inadequate inventory records as well as lack of effective in-built systems and procedures in place to ensure receiving, storage, issue and usage of drugs and medical supplies are recorded and controlled.
- The administration officers were paid overtime allowances without prior approval by the management.
- Almost all payments made during the year relating to supply of goods and services were not supported with quotes and requisition for Expenditure Forms and as a result, the necessary approvals and authorisation were not obtained prior to committing expenditure.
- Duty travel allowances were not properly acquitted by respective officers after official/duty travel.
- Higher duty allowances paid to an officer without deduction of taxes were in breach of the Income Tax Act.
- A sum of K2.7 million was released by the Department of Planning and Monitoring to Autonomous Bougainville Government Treasury Office for construction of water supply. This sum was alleged to have been paid into the account of Millennium Water Limited at the insistence of the then



Governor. The authority for the diversion of the sum of K2.7 million which had been appropriated for the construction of water reservoir to Millennium Water Limited and a statement showing how the sum was expended were not furnished for review. The evidence or documents available to me was limited and as a result, I was unable to carry out the necessary audit procedures required to satisfy myself that the K2.7 million had been expended on the water reservoir. I therefore, advised that independent investigation be conducted to determine how the sum of K2.7 million was used.

- Other Receipts totaling K250,000 received from the Department of Planning and Monitoring for the purpose of maintenance of sewerage. However, instructed by the then Governor, the Hospital had to pay back an amount of K180,000 to the ABG operating account for unknown reasons.

### 5.1.3. Buka Urban Council

I have conducted the audit of Buka Urban Council records for the year ended 31 December, 2008. A management letter detailing control weaknesses was issued for managements' comments in 24 March, 2009. There has been no response received to-date. The paragraphs below detailed control weaknesses for 2008 financial year:

- Buka Urban Council submitted a trial balance which was derived from their accounting system MYOB as at 31 December, 2008. Audit has noted that the management has not adequately used the MYOB software and as such, the reports produced were inaccurate nor reliable. As a result, the audit was suspended.
- The budget estimates titled "Buka Urban Council Revised Budget" for 2008 was provided to my Office revealing a deficit budget of K46,850. However, approval from the Minister was not sighted and as such, I was unable to ascertain whether the moneys received and expended were in accordance with the Appropriation Act and related legislation.
- I noted instances where market fees were collected and monies received were used for other purposes such as fuel, stationery, staff loans and the net of daily takings were then deposited either to the main operating account or Asset bank account. Non banking of daily takings of market fees may lead to theft, misappropriation or the tendency by staff to borrow.
- Salaries and wages to all the staff and labourers were paid in cash. Staff and labourers should open individual bank accounts so that all salaries and wages are paid directly to their respective bank accounts. This issue has been raised in previous years.
- No tax declaration forms were sighted for all employees and as such, I was unable to confirm whether correct tax was deducted from the employees.
- An amount of K52,500 was outstanding for POSF and yet to be remitted to Nambawan Super. This indicates that the staff are missing out on the interest



and the Urban Council can be penalized for non remittance of both employer & employee contributions in a regular manner.

- No Assets Register was provided for verification. In addition, there was no evidence that physical stock-take was carried out on assets. As such, I was unable to establish the existence, location and condition of the assets owned by the Urban Council.
- It was noted that a half of the Board members who were Public Servants were paid quarterly stipend and allowances. Public Servants who are member of the Board are not entitled to draw any fees or sitting allowances. They are only entitled to travel, accommodation and meal expenses where appropriate.
- Buka Urban Council does not have a Corporate Plan that establishes its long term objectives, set priorities and targets and take into account the needs and requirements of its stake holders.

#### 5.1.4 South Bougainville Engineering

South Bougainville Engineering is a company owned by a number of Council of Elders (COE) around Buin area in South Bougainville. The entity was incorporated in or around 1997 and initially funded by the former Member of Parliament, Hon. Michael Laimo.

The entity has submitted its financial statements for the years ended 31 December, 1997 to 2004 and paid the first installment of audit fees. The audit was completed in March 2010 with disclaimed opinion issued for all eight (8) years due to material scope limitation in carrying out the audit. The following documents and records were not made available: Cash Book, Bank Statements and bank reconciliations, Revenue and Expenditure Ledgers, Revenue Collection and Payment Records, Asset Register, Advances Register and Minutes of Meetings. Subsequently, I was not in a position to carry out any audit tests and examinations.

Section 164 of the *Companies Act, 1997* requires companies to maintain relevant records including company's Constitution/Act, shareholders' meeting minutes, board meeting minutes, etc. There was no evidence to suggest that such records were maintained during the year under review.

The written representations made by the Managing Director during the audit also state that financial statement records and related data, other information and explanations was not made available to the auditors.

## 5.2. CENTRAL PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Central Provincial Government	2008	2007	July 2009 Disclaimer	Controls testing of 2008 completed. Financial statements audit report in progress.
Port Moresby General Hospital	2008	2008	December 2009 Disclaimer	Significant control weaknesses identified
Amazon Bay	2006	No		
Aroma Coast	2003	No		
Cloudy Bay	2003	No		
Guari	No data	No		
Hiri	2003	No		
Kairuku	2003	No		
Koiari	2004	No		
Mekeo / Kuni	2003	No		
Rigo Central	2005	No		
Rigo Coastal	2005	No		
Rigo Inland	2005	No		
Tapini	2003	No		
Woitape	2003	No		
Motu-Koita Assembly	No accounts submitted since 2002		Audit done on controls 2008	Significant control weaknesses identified
Central Province Investments Ltd	No accounts submitted since 1991			2007 – 2008 financial statements awaited. 1991 to 2006 audits to be dispensed.
Central Province Transport Authority				1996 management letter response and signed financial statements awaited, 2007 – 2008 financial statements awaited. 1996 to 2006 audits to be dispensed.
Koiari Holdings Ltd				2007 – 2008 financial statements awaited. 1995 to 2006 audits to be dispensed.
Koiari LLG SP Authority (formerly Koiari Dev. Authority)				2007 – 2008 financial statements awaited. 1993 to 2006 audits to be dispensed.

## 5.2.1 Central Provincial Government

### General

The audit of the Central Provincial Government's 2008 controls was completed with the management letter issued. The audit opinion was issued in August 2010 and will be included in the next report to the Parliament. The control environment compared to previous years was still lacking adequate procedures and monitoring and could not ensure accuracy and completeness of transactions. The Provincial Government through the Provincial Treasury and the Provincial Administration staff has responded very poorly in respect of providing basic but essential accounting books and records for audit purposes. The risk of fraud and misappropriation occurring and remaining undetected was also high. The paragraphs below detail the issues identified.

### Budgetary Controls

The Provincial Government 2007 Appropriation Act appropriated total revenue and expenditure of K53,055,100. However, the financial statements disclosed a total expenditure of K55,447,402. No revised appropriation to that effect had been provided and it appears the Provincial Government breached its Appropriation Act by overspending an unauthorized amount of K2,392,302. Further, review of the 2008 budget revealed six (6) instances of new vote items being created under the Provincial Government account which had an unbudgeted total spending of K927,117.

### Bank Reconciliation

Bank statement as at 31 December 2008 disclosed that the bank balance was K3,526,294 against the cashbook balance of K4,635,893 (overdrawn). We were unable to confirm the reliability of the reconciliation because of the following concerns:

- Incomplete cash book records.
- Significant amount without proper supporting documentation, such as a total of K9,892,568 being reported as 'not in cash book' and K5,732,229 relating to former years going as far as 2002.
- An amount K10,518,713 brought forward said to be for 'credits in bank statement not in cash book', brought forward from prior years.

### Revenue Collection

PGAS Revenue ledgers were not updated for the National Government Grant receipts of K10,781,114 directly transferred into the Provincial Treasury Operating Account from the Waigani Public Account. Further, revenue receipts were not issued and collector /receiver statements were not raised, in many cases in respect of the grants transferred into the account and filed for record purpose. The same deficiencies in accounting of revenue was highlighted in the 2007 management letter, however, remedial action was not taken to alleviate the weaknesses highlighted.

There was no revenue appropriation made for royalties from the Tolukuma Gold Mine. We could not verify whether, the Central Provincial Government has received any royalty payments from the Tolukuma Gold Mines during the year under review.

A surprise cash count conducted on the 10 February 2010, revealed some cash deficiencies mainly due to cash borrowings allowed to staff. Revenue collections were not banked daily or regularly but banked randomly, (even monthly) which facilitated borrowings before banking. This is a blatant disregard for the requirements of the PFM Act and the Appropriation Act.

#### Payment of Accounts

The examination and verification of paid vouchers and related records and documents on a random sample basis revealed the following matters:

- Payments totaling K576,480 could not be verified due to unavailability of paid vouchers. This indicated weaknesses in terms of proper filing and safe keeping of source documents.
- Payments totaling K55,970 were not certified by the certifying officer, while similarly payments totaling K42,610 were processed without being examined by the examiner.
- Three quotations were not attached for payments over K5,000, totaling K59,835. In some instances financial delegates have approved payments which were over their delegated limits.
- Payments totaling K229,941 were made to a security firm, without a contract of engagement.

#### Capital Works and Maintenance

The examination of payments for Capital Works and Maintenance purposes has revealed payments for Capital Works and Maintenance totaling K2,591,533. I was not provided with 70% of paid vouchers for capital works and maintenance which shows a complete breakdown in filing and accountability requirements. In addition, the PSTB approvals, Authority to Pre Commit and payment vouchers (if any maintained) in relations to the minor works payments were also not provided for audit examination,

#### Grants and Subsidies

Grants and Subsidies totaling K2,831,396 were not acquitted by way of reports by the recipient entities and individuals. Also, there was no evidence to confirm that these had been sought.

#### Assets Management

Examination of expenditure ledgers reveal assets purchased during 2008 totaling K673,568. Assets Registers maintained did not capture every assets owned and

disposed in 2008 and prior years by the Provincial Government. Details such as: purchased price, date of acquisition and serial numbers were not disclosed.

#### Management of Advances

The records showed un-acquitted advances totaling K342,052 relating to previous years. The AGO review of un-acquitted advance revealed that there was lack of proper controls exercised over granting and acquittal of advances, resulting in a significant amount of un-acquitted advances at year end. Amount totaling over K887,000 including both cash advances and travel allowance and accommodation was identified as not captured in the Advance Register.

#### Salaries and Allowances

Examination of records relating to salaries and allowances revealed the following:

- Personal files for contract officers and other employees were requested for audit verification but were not provided. Hence, any anomalies in the payments of salaries and allowance to the officers including contract officers remain undetected.
- A total of K114,276 was paid to a medical doctor for various contract allowances. There was no formal contract of engagement between the Provincial Government and the doctor. The doctor was not performing any clinical duties in a hospital environment to warrant the payment specifically awarded to medical clinicians in a hospital or medical laboratory environment.
- Provincial Executive Council Members who are entitled to K19,800 as vehicle allowance (as per SRC Determination G007-01 to G007-24 dated 1 July 2007), were paid instead K22,841, an overpayment of K3,041.
- Salaries and wages sheet for Provincial Members were requested but not made available to audit. There could have been over or under payments in breach of the current SRC Determinations, in regard to salaries paid to Provincial Members.
- There was no payroll reconciliation done on employee's net salaries, allowances, salary rates and tax computations.

#### Internal Audit

The Internal Audit Unit did not make available any annual audit work plan for review requested by this Office. In addition, there was no Audit Charter to set out the mandate and scope of audit coverage and an Audit Committee to oversee the activities of the Internal Audit Unit.

### **5.2.2 Port Moresby Hospital Board**

Major audit issues in our report to the management regarding 2008 accounts and records were as follows:

- The AGO was not able to verify the completeness and accuracy of the fixed assets due to absence of sufficient supporting documents. Proper Asset Registers incorporating the value, additions, disposals and depreciation were not maintained.
- In the absence of complete and enabling records of drugs and medical supplies this Office was not able to verify their balances. There were inadequate inventory records as well as lack of effective in-built systems and procedures (checks and balances), to ensure receiving, storage, issue and usage of drugs and medical supplies were recorded and controlled.
- There was limitation of scope arising from bank balances not being reconciled with cash books. The Operation Open Heart PNG Account and Donors Special Project Account were not made available for audit review. In the absence of sufficient and appropriate supporting documents, I was not able to verify the accuracy and completeness of the total amounts of expenditure for the operational account of K33,009,779 and trust account of K1,433,286.
- There was no proper vehicle register kept by the Hospital to record all motor vehicles, registrations and their expiry dates. Furthermore, this Office was unable to determine whether all hospital vehicles carried "Z" plating on their number plates as required under the Motor Vehicle Registrations Regulations.
- The Hospital did not have a proper register of all of its Board of Directors details. In addition, the Hospital did not keep Minutes of Meetings book. I was not provided with sufficient documentation to determine whether Board Allowances were paid in accordance with the agreed terms and conditions.
- The Hospital installed Attaché accounting software seven years ago. This system has not been utilized for maintenance of proper General Ledger. All accounting records are currently maintained on MS Word and Excel spreadsheets.
- The AGO was not provided with adequate information to establish whether private practitioners are being duly authorized for the use of the Hospital's facilities according to the contracts they have entered into.
- There were also significant weaknesses in controls over payroll and staff wages. There were no checks and balances measures in place to ensure pays are made only to individuals who work for the Hospital. We observed that neither clock-on cards nor attendance registers were in place with the staff members frequently absent from work. Staff were paid full salaries despite their prolonged absenteeism from work.

- We noted that the condition of some of the buildings (some from the colonial days) and most equipment needed replacement. Fire safety equipment (such as fire extinguishers) was also not installed.
- No proper stocktake of food rations were done to ascertain the need for future food purchases. The storehouse was in a bad condition and food rations were stored in an open area. There was a high risk of theft, fire hazard and food contamination.

### 5.2.3 Motu –Koita Assembly

The *Motu Koita Assembly Act 2007*, provided for establishment of a local 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.

Since its inception, the Motu Koita Assembly has not prepared financial statements for the years 2007 and 2008. The Finance Manager and the administration staff has not responded positively in respect of providing basic but essential accounting books and records for audit purposes. Bank statement records for the year 2008 showed a total revenue of K3,281,921 was received from the National Capital District Commission with expenditure incurred of K3,379,720 thus leaving a net overdrawn balance of K97,799.

Major audit issues in our report to the management regarding 2008 accounts and records are detailed below.

#### Corporate Governance

- The Motu Koita Assembly did not have a Corporate Plan that establishes long term objectives, sets priorities and targets and takes into account the requirements of its stakeholders.
- Motu Koita Assembly did not have a proper Annual Budget for the years 2007 and 2008.
- The Assembly's meeting minutes for the years 2007 and 2008 were not provided to audit for inspection.
- In 2008, a total of seventeen (17) Assembly Members were said to be sworn in. Each of the members was said to be paid a quarterly stipend of K2,500 and an allowance of K100 on every meeting while the Chairman was paid K5,000 quarterly for stipends and an allowance of K300 per meeting. Records showed that a total of K143,100 were paid as stipends alone for the members. We are unable to comment on the genuineness of the stipends and meeting allowances as minutes and formal swearing in documents were not sighted.
- There was no Internal Audit Unit in existence or Audit Committee.

### Revenue Collection

- Collector statements whether or not maintained and filed pertaining to the receipting, recording and banking of cash and cheques were never provided for audit review and inspection. As a result, I was not able to report and comment on the total amount of money receipted and recorded in the years 2007 and 2008.
- There was no segregation of duties in the collection of cash, verifying and banking. As a result, the risk of fraud is substantive.
- Balances taken up in the Bank Reconciliations could not be verified in absence of any documentation.
- There were no ledgers and schedules maintained to record rate payers, clients and customer transactions and reflect any amounts owing.

### Purchasing and Payments

No formal appointment of the financial delegates (Section 32 officers) in the years 2007 and 2008 was undertaken. All payments were seen to be certified and approved by one of the two officers (either the Chairman or the Accounts Clerk).

One Hundred and fifty-nine (159) instances of payments totaling K1,324,106 were reviewed and the following weaknesses were identified:

- There were no three (3) different quotations and valid invoices for all of the payments to ensure validity of the payments. Finance Forms 3 and 4 were not used while raising payments.
- There were no ledgers, subsidiary ledgers and schedules maintained to record payments owing to suppliers of goods and services.
- There were no signed contract documents to confirm payments totaling K172,300 in eighteen (18) instances out of the mentioned (159) payments made said to be for providing professional consultancy services. The details of the kind of services rendered including accountability reports and contract documents were never sighted.
- Ten (10) instances of payments totaling K168,610 made for Public Investment Projects-PIP such as clearing drainages, grass cutting on road sides, etc, had no accountability report complied specifying how funds had been utilized in their respective council wards. And as such, I was unable to ensure and comment on the validity of these PIP Project payments.
- Ten (10) instances of payments totaling K45,480 made for school fees of certain students of the Motu Koitabu Area to various institutions had no copies of acceptance letters from institutions, no school fee outstanding reports and details as well as acquittal records.



- Eighteen (18) instances of payments totaling K189,490 did not have the records of paid vouchers and related documents. And as such, I could not ascertain the validity of these payments.
- Four (4) instances of payments totaling K28,941 were made for household goods for the Chairman of the Assembly, which were seen to be illegal as public funds can not be spent on personal usage.
- Written documents that were attached together with the paid vouchers were mostly written using the Motu language and it was not possible to interpret the writing. We recommended that the use of Motuan language on official documents is banned and only official Tok Pisin or English is used.
- Analysis of payments from bank statements in 2008 revealed a total of 917 instances of payments totaling K1,399,183 were made to certain individuals. Valid documents were never sighted. Out of those payees, six (6) were employees of the Assembly and were paid a total of K1,018,122 in 581 instances. These payments need further investigation as the risk of fraud is significant.

#### Salaries and Allowances

Audit review revealed the following short comings:

- The Payroll was controlled by the National Capital District Commission. The employees of Motu Koita Assembly did not have their personal records and files available to confirm the eligibility of their employment.
- The Assembly had a total of twenty-nine (29) staff of which 17 were said to be permanent officers. There were no records of employment such as personal files, job applications, resumption documents and leave records.

#### Advance Management

Audit review and verification of records and related documents pertaining to the management of advances revealed that Advance Register for both travel and cash advances were not maintained. Thus, acquittal records for official travels were never sighted to confirm whether or not the official trips were taken.

#### Asset Management

The Motu Koita Assembly did not maintain Assets Registers to incorporate all assets acquired by the Assembly in 2008 and prior years. Information on assets register should contain the purchase value, acquisition date, detail description, condition of the assets, location and custodianships.

### 5.3 EAST NEW BRITAIN PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
East New Britain Provincial Government	2009	2008	August 2010 Disclaimer	Some improvements noted
Nonga Base Hospital Board	2009	2008	June 2010 Disclaimer	Significant controls weaknesses identified
Kokopo Vunamami Urban	2009	2008	June 2010 Disclaimer	Significant controls weaknesses identified
Rabaul Urban	2009	2008	June 2010 Disclaimer	Significant controls weaknesses identified
Balanataman	2009	No		
Bitapaka	2009	No		
Central Gazelle	2009	No		
Central Inland Pomio	2009	No		
Duke of York	2009	No		
East Pomio	2009	No		
Inland Baining	2009	No		
Kombiu	2009	No		
Lassul Baining	2009	No		
Melkoi	2009	No		
Raluana	2009	No		
Livuan Reimber	2009	No		
Sinivit	2009	No		
Toma Vunadidir	2009	No		
Watom	2009	No		
West Pomio Mamusi	2009	No		
Gazelle Restoration Authority	2009	2009	July, 2010 Qualified Opinion	Controls noted to be satisfactory.
Barakopo Plantation Ltd	2003			1995 – 1998 audit done by private auditors 1995 – 2006 audits to be dispensed; 2007 – 2008 financial statements awaited
ENB Dev. Corp.				1995 – 2006 audits to be dispensed. 2007 – 2009 financial statements awaited/audits to be

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
				determined
Islands Development Bureau Inc.	2001			1995 – 2006 audit by private auditors; 1995 – 2006 audits to be dispensed. 2007 – 2009 financial statements awaited
Pomio Development	1997			1997 – 2004 audits to be dispensed. 2007 – 2009 financial statements not received.
South Coast Shipping	2000			1993 – 2000 management letter response, signed financial statements and audit fees awaited; 2000 – 2006 audits to be dispensed. 2007 – 2009 financial statements awaited.

### 5.3.1 East New Britain Provincial Government

#### General

The results of the audit of East New Britain Provincial Government for the year ended 31 December, 2008 was unsatisfactory, with disclaimed audit opinion being issued. It is pleasing to note however, that there were some improvements in the record keeping and general administration of the Provincial Government affairs. The East New Britain Provincial Government was also the first Provincial Government in PNG to prepare its 2009 accounts. I hope that this trend will continue in the years to come with further improvements in the controls environment.

#### Approval of Appropriation

I was unable to sight any revised budget to indicate that the increased appropriation had been approved by the Provincial Government Assembly.

### Provincial Government Operating Account

The bank reconciliation statement compiled in respect of East New Britain Provincial Government operating account for the month of December 2008 revealed material amounts of reconciling items which were not adjusted in the cash book and respective ledger accounts and as a result, an adjusted reconciled cash book balance of K1,222,059 was shown as at 31 December, 2008. The Auditor-General's Office reviewed the bank reconciliation statement and identified the following issues:

- The unadjusted reconciled cash book balance of K1,222,059 and the bank balance of K2,081,992 shown in the bank reconciliation statement did not agree with the corresponding closing cash book balance of K1,228,025 and confirmed bank balance of K1,987,093 as at 31 December, 2008 thereby, resulting in materially misstated cash book and bank balances at the year end.
- There were outstanding receipts totaling K290,068 dating back to 2006 that were not accounted for. These outstanding receipts should have been investigated with appropriate action taken against the accounting officer(s) concerned.
- Other items debited or credited to the Provincial Government Operating account dating back to 2004 totaled K1,736,117 and K94,279 respectively. These debit and credit entries which relate to the Provincial Treasury Operating account rather than the Provincial Government Operating account should have been identified and communicated to the Bank to make the necessary adjustments.
- An improvement was noted in respect of the balance of unpresented cheques. The unpresented cheques of K2,422,295 from December 2008 had been reduced to K1,050,525 in September 2009.

### Revenue Collections

A review of procedures and records relating to collection of revenue revealed that there was lack of proper guidelines and adequate records to assess and monitor the collection of internal revenue on a regular basis. Also, there was a lack of co-ordination and co-operation amongst officers of the Revenue Unit and other line economic Divisions of the Provincial Government to effectively plan and direct their efforts to ensure that all internal revenue estimated for the year were duly collected and accounted for.

The Auditor-General's Office was advised that the significant shortfall recorded in respect of Tax on Land Rentals and Leases was due to the delay caused by the respective Department of Lands and Physical Planning (Valuer General's Office) and Provincial Division of Lands in providing the updated Valuation Rolls to the Provincial Revenue Unit to enable the collection of accurate taxes on land rentals and leases. Also, the Provincial Legal Services Unit did not provide legal assistance to the Provincial Revenue Unit in enforcing the relevant provisions of the *Land Tax Act 1982* so as to enable the collection of the required tax on land rentals and leases.

### Acquittal of Grants

The Public Authorities, Non Profit Organisations and Schools who were recipients of lump sum payments of grants and education subsidies totaling K2,536,530 and K1,463,385 respectively did not acquit the receipt of grants and subsidies by way of furnishing accountability reports to the Provincial Government. There was no evidence to indicate that the Provincial Government had sought these reports from the recipient entities.

### Trust Accounts

The Trust Instruments which set out the purpose and evidence of approval granted by the appropriate authorities to the Provincial Government to operate ten (10) trust accounts were not made available for examination. The trust ledgers of four (4) trust accounts had overdrawn closing balances totaling K767,130 as at 31 December, 2008. The overdraft was in breach of Section 17(6) of the *Public Finances (Management) Act*.

### Payment of Accounts

Payments that are not made in accordance with the *Public Finances (Management) Act 1995* and relevant financial procedures and instructions expose the Provincial Government to the risks of fraudulent activities and misuse of public monies. The audit review of controls relating to payment of accounts tested on sixty-four (64) payments totaling K1,304,569 identified the following:

- Twenty-eight (28) payments totaling K180,351 were not approved by the appropriate Financial Delegates for purposes of internal check and expenditure control. Also, payments totaling K416,288 were not certified to determine the legitimacy of claims prior to processing payment.
- Three (3) payment vouchers relating to payments totaling K337,522 were missing from files and as such, the Auditor-General's Office could not ascertain the validity of the claims presented for payment.
- Three (3) competitive written quotations were not obtained from Suppliers in respect of purchase of GPS Stratus single units valued at K31,086.
- The Tenancy Agreements in relation to leasing of office spaces from Agmark Pacific Ltd, ENB Development Corporation and Kokopo Museum were not made available to determine the legitimacy of monthly rentals being paid to the respective landlords.
- Payments totaling K58,669 were made in relation to the Provincial Administrator's entitlements in respect of housing, domestic and security allowances. These allowances were not taxed as taxable income at the appropriate tax rate as determined by the *Income Tax Act* and the appropriate amount of tax remitted to Internal Revenue Commission accordingly.

- A part payment of K288,000 was made in relation to the acquisition of land from the Catholic Archdiocese of Rabaul for the Takubar sports field. However, the Contract of Sale document was not sighted with the payment voucher to determine the validity of the claim presented for payment.

#### Internal Audit

The Internal Audit Unit was not only adequately funded, it also lacked sufficient office space and secretarial staff necessary for the effective and efficient performance of its function and responsibilities.

### **5.3.2 Nonga Base Hospital**

Due to non-submission of 2005, 2006 and 2007 financial statements, the audit of these financial statements had been dispensed. Nonga Base Hospital had prepared its 2008 statements and I have carried out appropriate audit procedures regarding the opening balances.

Finance Instructions 2/2004 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 Public Bodies. The financial statements of Nonga General Hospital did not contain mandatory statements, such as: Statements of Changes in Net Cash Assets and Schedule of Capital Assets and Liabilities. Subsequently, the financial statements were not presented in the format required by the Finance Instructions.

There was material limitation of scope which resulted in a disclaimed opinion for 2008 as follows:

- The Statements of Receipts and Payments presented in respect of the Operating Account and the Trust Account were not consolidated to show the accumulated closing cash balances as at 31 December 2008.
- The Hospital did not maintain proper cash books and perform timely bank reconciliations of the Operating and the Trust Accounts. Consequently, I was unable to verify the accuracy and completeness of the closing fund balance of the Operating Account of K1,461,099 and Hospital Fees Trust Account of K11,277 disclosed in the financial statements.
- There was no segregation of duties between collection and banking and the preparation of revenue statements.
- The collector statements (Daily Receipts Statements) and other related revenue records were not adequately compiled and maintained and were observed to be misplaced. As a result, there were instances of missing collector statements and I was unable to carry out tests of deposits for the year under review.
- Regular cash counts were not conducted by supervisors to ensure that all monies collected were receipted and appropriately accounted for.

- Travel advances, cash advances and salary advances paid during the year were not fully acquitted. Therefore, there was 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 addition to the limitation of scope, there were significant control weaknesses identified in Nonga Hospital's records and processes, as follows:

- Contracts of Employment for thirteen (13) officers engaged on contract basis were not renewed at the time of audit in November, 2009. The Chief Executive Officer's Contract of Employment had expired dating back to February 2005. A formal instrument of appointment enabling the CEO to act in the position whilst the respective Departments of Personnel Management and Health conduct a review on the renewal of contract was not made available for review. Consequently, I could not confirm that the CEO legally occupied the position and whether decisions made could be considered valid.
- Under the new structure in the Health Department, all hospitals and other provincial health services in each province were to come under one board as 'Provincial Health Authority'. Since the term of the Hospital Board expired, the Hospital had no Board functioning during the year under review.
- Personal files and history cards were not updated and properly maintained. Also, the personal files were mixed up with both staff personal documents and salary related matters. Correspondence regarding salary increase or promotions were not sighted in some of the officers' personal files and as such, the AGO could not determine the validity of salaries and allowances paid to them.
- The AGO examined the controls to ensure that expenditure, including unpaid commitments do not exceed budgetary allocations during the fiscal year and identified that commitment control was lacking. Funds approved and released by the Department of Health by way of CFC in respect of five (5) expenditure vote items were overcommitted to the extent of K242,299 during the year under review.
- Payments totaling K27,986 were made in relation to providing accommodation for doctors. In the absence of the suppliers' invoices and other relevant supporting documents, I was not able to determine the validity of the payments made.

### 5.3.3 Kokopo/Vunamami Urban Local-level Government

The audit of Kokopo/Vunamami Urban Local-level Government financial statements for the year ended 31 December, 2008 was unsatisfactory with disclaimed audit opinion being issued. The audit findings were as follows:

### Receipts and Payments for 2008

I was unable to verify the accuracy of the receipts and payments and subsequently the accuracy of the net surplus of K34,406 as at 31 December 2008 due to:

- Cheque register was not adequately maintained. The values of cheques were not recorded in the amounts column and persons collecting/receiving the cheques had not signed in the register to confirm the collection of cheques.
- In four (4) instances, payments totaling K20,751 were made without the relevant supporting documents such as the suppliers invoices.
- In four (4) instances, payments totaling K52,627 were not approved by the appropriate financial delegates nor were certified to determine the legitimacy of claims prior to processing payments.
- The stamped copies of BSP Kundupeu Salary Acknowledgement forms to confirm that the fortnightly salaries and wages of employees were paid into their respective bank accounts were not provided to District Treasury Office for documentation and record purposes.

### Assets

The fixed Assets Register was not properly maintained and updated on a current basis. There was no evidence to indicate that periodic stock-takes were conducted in order to ascertain the existence, conditions and value of assets that are owned and were in custody of the Urban LLG.

Financial Statements did not include the value of assets worth K117,080 that were acquired in 2008.

### Other Control Weaknesses

There were significant control weaknesses identified in the Kokopo/Vunamami Urban Local-level Government's records and processes, as follows:

- Schedules of outstanding debtors provided to AGO revealed there were substantial amount of monies due from licensing and application fees, corporate tax and garbage and sanitation charges totaling K522,027 that remained outstanding as at 31 December 2008.
- Cash advances totaling K14,776 granted to officers dating back to 2005 were unacquitted as at 31 December 2008.
- The Urban LLG was at risk of theft of public monies due to lack of security measures put in place at the accounts section when cash from market takings are counted, balanced and kept in a safe.



- Proper records of the Assembly and Financial Executive Committee meeting minutes and resolutions were not adequately maintained for reference and record purposes.

#### Improvement Noted

An examination of the cash book and bank reconciliation statements for Kokopo/Vunamami Urban Local-level Government revealed that the cash book was well maintained through the PGAS and the bank reconciliations were correctly done with reconciling item adjusted in the cash book and the respective ledger accounts. The control mechanism of independent checks and verification by senior officers were also adhered to.

### **5.3.4 Rabaul Urban Local-level Government**

The audit of Rabaul Urban Local-level Government's financial statements for the year ended 31 December, 2008 was unsatisfactory with disclaimed audit opinion being issued. The audit findings were as follows:

#### Investment Account

Rabaul Urban Local-level Government operated an investment account. There was no evidence to indicate that the operation of the bank account was approved by the appropriate authorities (Secretary of Department of Finance). Also, there were no proper cash book and bank reconciliation statements maintained in respect of the investment account. The bank confirmed a closing balance of K215,200 held in the account as at 31 December, 2008.

#### Bank Reconciliations

There were material reconciling items pertaining to receipts and expenditure that were not adjusted in the cash book and posted to the appropriate ledgers. I was unable to verify the accuracy of the receipts and payments and consequently, the accuracy of the operating results as at 31 December 2008.

#### Assets

Records showed assets owned by Rabaul Urban Local-level Government as at 31 December 2008 as K188,797 compared against the assets value of K883,614 as revealed by the Assets Register. My review of the expenditure ledgers revealed assets worth K7,546 were purchased during the year which had not been recorded in the Assets Register. Consequently, I was unable to verify the completeness and accuracy of the assets owned by Rabaul Urban Local-level Government.

#### Other Control Weaknesses

There were significant control weaknesses identified in the Rabaul Urban Local-level Government's records and processes, as follows:

- The recipients of financial assistances totaling K4,750 did not acquit the receipt of funds by way of furnishing accountability reports to the Urban

Local-level Government. In the absence of the accountability reports, I am unable to determine whether the financial assistance was utilized for the intended purpose.

- The Report of Unacquitted Advances – Appendix 6 disclosed Nil outstanding advances at year end. However, my review of the PGAS advances register revealed three (3) instances of cash advances totaling K3,890 which were granted to officers dating back to 2007 that have not been acquitted as at 31 December 2008. Also, the expenditure ledgers revealed six (6) instances of payments of travel and cash advances totaling K4,140 which were granted to officers during the year that were not recorded in the PGAS advances register.
- The Urban Local-level Government advised that, due to a technical problem associated with its computer hardware and programmes, it was not able to provide the required report on debtors and receivables for the year under review.

#### Approval of Appropriation

The Auditor-General's Office could not ascertain whether the Local-level Government's Finance Committee approved the increase to the original appropriation as a revised budget was not made available for examination. Furthermore, it was noted in twelve (12) instances, that the Rabaul Urban Local-level Government incorrectly charged and paid expenditure that was not appropriated for that particular purpose.

#### **5.3.5 Gazelle Restoration Authority**

The 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 clean up tasks, restoration of essential services in the affected areas and replacement of infrastructure. Program activities have been financed through funding arrangements with the International Bank for Reconstruction and Development (IBRD), European Union and partially through AusAid.

The Authority manages its affairs by having effective internal controls surrounding the collection, recording and reporting of financial information and funded projects. Financial information is effectively captured and records of the entity are well maintained and up to date which transpired out in the preparation of the 2008 and 2009 financial statements. Funded projects and activities were also well managed by the Project Division with proper project reports maintained of all projects and adherence to terms and conditions of donor agencies.

The entity has done well in the past and current audited years. In 2008 and 2009, the entity managed to pull through with restoration projects and activities despite shortfalls in grants from donor agencies such as European Union and the cut back on subsidies from the Government of Papua New Guinea. Funds that were received during 2008 and 2009 and the past years were being effectively, economically and efficiently utilized to fund projects and restore livelihood to communities affected during the 1994 volcanic eruptions. The whole of East New

Britain is benefiting from these activities and projects carried out by the Authority. However, despite these tremendous achievement and productive outcome, the going concern of the entity is in question as the function of the entity is heavily dependent on grants and subsidies.

At the time of preparing this report in September 2010 the audit of the 2008 and 2009 financial statements have been completed, and the audit opinions issued. Both opinions issued did not have any qualifications.

#### **5.3.6 East New Britain Development Corporation Limited**

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 Britain Supermarkets Limited
- ENB Port Services Limited
- Dawapia Construction Limited

There is also a related entity – New Britain Copra & Cocoa Co-operative Limited.

Since year 2000, the management of ENBDC has engaged private auditors to audit the accounts of ENBDC and its subsidiaries without proper authorization of the AGO. Our Office has however, written to the management regarding this matter as this is a breach of Section 8(5A) of the *Audit Act, 1989*. A meeting was also convened between the management of ENBDC and the AGO in May, 2010. The AGO was advised that all the audits are still in arrears. To date I have not received any positive response from the ENBDC management.

## 5.4 EAST SEPIK PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
East Sepik Provincial Government	2008	2008	June 2010 Disclaimer	Significant control weaknesses identified
Boram Hospital Board	2008	2008	Marc 2010 Disclaimer	Significant control weaknesses identified
Albiges Mamblep	2006	No		
Ambunti Rural	2009	No		
Angoram M.S	2008	No		
Bumbita Muhiang	2006	No		
Burui Kunai	2009	No		
But/Boiken	2005	No		
Drekirkir	2009	No		
East Yangoru	2008	No		
Gawanga	2009	No		
Gawi	2009	No		
Karawari	2008	No		
Keram	2008	No		
Maprik Wora	2006	No		
Mariengberg	2008	No		
North Wosera	2009	No		
Numbo	2008	No		
Sausso	2008	No		
South Wosera	2009	No		
Tunap/Hustein	2009	No		
Turubu	2005	No		
West Yangoru	2008	No		
Wewak Rural	No data	No		
Wewak Island	2005	No		
Wewak Urban	2008	2008	March 2010 Disclaimer	2008
Yamil Tamaui	2005	No		
Yuat	FS never prepared			
East Sepik Devlp. Corporation	2001			2002 – 2009 financial statements awaited/audits to be determined

#### 5.4.1 East Sepik Provincial Government

Due to unreliable processes and absence of controls, I have issued a disclaimer of audit opinion on the 2008 accounts. A management letter sent to the Provincial Government detailing audit issues was not responded to. The paragraphs below detail issues identified during 2008.

##### Investments

The Provincial Government reported only investment held in South Sea Tuna of K2million as at 31 December 2007. However, prior year financial statements disclosed investments in Westpac Bank, Sepik Holdings, Avis Rent a Car and Windjamer Beach Motel, without any record of disposal. In the absence of investment register, share certificates or documentation available to indicate whether the investments were disposed, this Office was not able to ascertain the value of the investments held as at 31 December, 2008.

##### Borrowings

The East Sepik Provincial Government borrowed K400,000 from Sepik Savings and Loan Society with an interest rate of 1% payable monthly. The amount was borrowed in 2005 and was still outstanding as at 31 December 2007. Details of this borrowing were not disclosed in the 2008 financial statements. The reason for the borrowing is not known.

##### Budgetary Controls

The 2008 Provincial Government Budget was passed by the Provincial Assembly on 4 February 2008 in which the Provincial Appropriation Act No. 1 of 2008 authorized and provided for the issue and expenditure of K67,654,800 for the provision of services for the fiscal year 2008. The following issues were noted:

- Internal controls were weak and complete records were not provided for audit, although requested.
- The total expenditure could not be ascertained to compare with the appropriation as the information on the expenditure on the Public Servant's Salary was not provided, although requested.
- Expenditure was charged to incorrect votes during the year. This was also the trend in 2006 and 2007.

##### Revenue

Internal Revenue of K4,836,137 collected during the year against an estimate of K9,545,000, resulted in an under collection of K4,708,863. This was due to unrealistic revenue estimates and ineffective revenue collection practise. There were instances where nil revenue was collected against budgeted amounts such as, agricultural commodity, Fisheries Fees, alluvial Gold, tourism fees, etc.

Revenue Registers relating to Liquor Licensing, Motor Vehicle Registration, Drivers License etc, were not maintained by the Revenue Office to monitor and control

revenue due to the Provincial Government. The Liquor Licensing Register did not show the following relevant information: the Class of License, the annual renewal fee, the date of renewal etc. Even the Register and the list provided showed a substantial number of license holders who have not renewed their licenses. If revenue registers are not maintained, management would not know how much should be collected during the year.

#### Cashbook and Bank Reconciliations

The December Cash Book for the Provincial Government Operating Account revealed a balance of K1,237,774 while the Provincial Treasury Operating Account Cash Book revealed a closing balance of K322,014 as at 31 December 2008. However, on numerous occasions during the year the cashbooks had over drawn balances - an indication of poor cash management practices by the Provincial Treasurer which should not be allowed to continue.

The December bank reconciliations sighted for both East Sepik Provincial Government Operating Account and the Provincial Treasury Operating Account reconciled the bank statement balance to the cash book balances. However, it is noted that reconciling items continue to be shown in the reconciliation statements without being cleared.

The hard copies of the 2008 East Sepik Provincial Government and Provincial Treasury monthly bank reconciliation from January to December were not printed, signed by the officer preparing the bank reconciliation and checked and verified as correct by the checking officer.

The reconciling items appearing in the December 2008 bank reconciliations for both accounts have showed significant matters of concerns:

- Outstanding receipts dating back to prior years remained outstanding. Recovery action was not instituted to recoup these monies.
- Inward dishonoured cheques - receipts were not acted on to have the cheques re-presented.
- Bank fees were not adjusted in the Expenditure Ledgers and Cash Book accordingly.
- There were invalid cheques appearing in the bank statement. These cheques should have been identified and cleared upon receipt of the monthly bank statement.

#### Procurement Procedures

The purpose of the audit was to assess whether the acquisition of goods and services are conducted in accordance with relevant legislation, government policies and sound purchasing principles and practices. The following issues were noted:

- There is a Tender Box but it is not firmly fixed to the wall of the building and can be moved.

- No Tender Board meetings of PSTB Meetings held in 2008 were furnished to this Office. The current Executive Officer to the Tenders Board could not locate the 2008 meeting minutes.

#### Payments of Accounts

A test check of selected payment vouchers to ascertain compliance with payment procedures revealed the following non-compliance and irregularities:

- In many instances, the same person was signing the Requisition for Expenditure Form and General Expenses Form as the Authorized Requisitioning Officer, the Section 32 Officer and the Financial Delegate. The absence of segregation of duties may result in conflict of interest and abuse of the procurement and payment procedures.
- I noted that the expenditure totaling K93,630 was incurred by the Governor in Port Moresby which may or may not relate to him performing his duties as the Governor of East Sepik and should not have been paid by the Provincial Government.
- In our 2007 Audit Management Letter, audit noted excessive vehicle hire and repair and maintenance cost paid by the Provincial Government for the Governor and the Governor's Office during the year although, the Governor was at the same time receiving full official and support vehicle allowances under the SRC Determination. This is also continuing in 2008.
- Three (3) quotations were not obtained prior to the purchase of goods and services costing up to K100,000 in most instances as required by the Financial Management Manual. The Quotations Register was not maintained.
- Expenditure was incurred out of incorrect votes during the year in many instances. This is a breach of the Appropriation Act.
- Claims were not being properly examined and certified by Examining and Certifying Officers prior to authorizing of cheques in many instances.
- Payments for Recreation Leave Fares were made directly to Officers (Public Servants and Teachers) instead of payments made to Suppliers such as Air Nuigini etc.

#### Assets Management

A Register was maintained during the year to record purchases for the 2008 year only. However, it was noted to be incomplete, it did not include assets purchased in previous years and the entire 2008 asset purchases.

This anomaly was also reported in our previous Audit Reports but no action was taken to maintain a proper and updated Asset Register to record all Classes of Assets. As a result, the Provincial Government was unable to determine the value of its assets at year end for disclosure in its Financial Statement. No periodic stock-take of assets was done to ascertain the existence, condition and ownership of all Provincial Government Assets.

### Management of Advances

Non maintenance of an Advances Register and non-acquittal of advances and issuance of new advances while the previous advance remains un-acquitted are all breaches of the finance legislation. Also, the Provincial Government was losing money through non-recovery of long outstanding cash and travel advances.

Examination of the records and documents relating to the payment and acquittal of advances revealed that there was no control over payment and acquittal of advances during the year and previous years. The financial statements disclosed a total sum of K1,503,940 as outstanding cash and travel advances as at 31 December 2008. The issues were:

- Advance Registers were not maintained during the year and previous years to record cash and travel advances paid and acquitted.
- Advances were not acquitted within seven days after return from duty travel.
- New advances were given to Officers while their previous advances still remain un-acquitted.
- Cash Advances paid to Officers and acquitted were not properly checked by the Examiners to ensure that the cash advances paid to the Officers have been spent on the intended purposes.
- Travel advances received for duty travel that were acquitted were not supported by 'Boarding Passes' and 'Ticket Butts' as evidence that the Officer had traveled.

### General Ledger Entries

Examination of the journal entries raised and posted during the year to ensure that journal entries are properly authorized, supported by adequate documentations, signed by Officers preparing, verifying and certifying the journal entries revealed that all journal entries were prepared, verified, certified and posted to ledgers by the same person. Such practices could lead to concealment of fraudulent transactions.

### Corporate Governance

A Corporate Plan and Associated Plans were not in place during the year. A draft Corporate Plan furnished to audit in our 2007 audit was for the period 2007 – 2012. Furthermore, the draft Corporate Plan did not have any associated plans on Budget and Financial Management, Human Resource Management and Asset Management.

### Internal Audit

The Internal Audit Unit of the Provincial Government consists of the Internal Audit Manager, seven (7) Internal Auditors and two (2) Support Staff. Audit was informed by the Internal Audit Manager that during the year, the only audit check done was into schools and investigations into Local-level Governments. The routine areas of operation of the Provincial Government such as revenue



generation, human resource, asset management and procurement and expenditure on capital works and maintenance amongst the major functions of the Provincial Government funding have not been subject to any appraisal by the Internal Audit Unit.

Furthermore, the Provincial Government does not have an independent Audit Committee to oversee the objectives and activities of the Internal Audit Unit nor an Audit Charter that sets out the mandate and scope of the Internal Audit Unit.

#### **5.4.1 Boram Hospital Board**

The Boram Hospital submitted their 2008 financial statements in August 2009. The audit was completed with a management letters issued. No response was received in the requested time. The issues regarding the financial statements and the control environment are detailed in the paragraphs below.

##### Financial Statements

The audit opinion of the 2008 financial statements has been disclaimed, due to the following:

- The financial statements did not contain adequate Notes to the Financial Statements. Details of accounting policies were not disclosed, in particular, the basis of preparation of the financial statements and accounting treatment of various financial statement items.
- There was limitation of scope arising from bank reconciliations. The cashbooks with running balance for both operating and trust accounts have not been maintained; therefore I was unable to verify the cash book balance when examining bank reconciliations.
- The General Hospital did not maintain accounting records and proper assets register for fixed assets purchased in previous years. In the absence of complete and up to date asset register and an annual stock take undertaken, I was not able to verify the completeness, existence, accuracy and valuation of the fixed assets at the year end.

##### Budgetary Controls

Financial resources allocated to the Hospital or generated by the Hospital are limited and should be spent with due regard to efficiency and effectiveness. It was noted that funds allocated annually through the National Budget were not expended in accordance with the Appropriation Act. Notable lapses and control weaknesses observed from the review of the budget process were:

- Non-inclusion of Trust Account in the Annual Budget. The Hospital generates fees and other receipts that were not included in the annual budget estimate.
- Financial Delegates were not ensuring, before approving expenditure that the most economical options have been considered prior to committing of funds. Such oversight by the Financial Delegates has resulted in spending of

funds in excess of the budget and funds spent on expenditure not budgeted for.

- Funds from the Trust Account were inappropriately being used to meet the needs of the operating budget.

#### Revenue

It is the responsibility of Chief Executive Officer to ensure that Hospital revenues are collected promptly and to the fullest extent and to have the rates of fees, charges, and taxes imposed reviewed annually. There should also be stringent arrangements within to safeguard the collections of public moneys received and for their proper accounting. The AGO assessment of the revenue collection and sources noted the following significant weaknesses.

- The management responsibility to have the rates of fees, charges, and taxes imposed reviewed annually was not implemented.
- The duties of the Collectors and Receiver of Public Monies were not defined. It was noted that there was no segregation of duties for the officers responsible for revenue collection, monitoring, review and reporting.
- Proper reporting processes of revenue collections, comparative analysis and reconciliation was lacking in order to keep the management fully informed of the progress in revenue generation and to initiate timely remedial action where shortfalls were expected.

#### Collection and Banking

Internal Audit investigation into the revenue management of the Hospital had highlighted various discrepancies. Management response to our recommendations and also to the finding of the internal audit was not implemented to-date. As such, the noted irregularities were:

- Absence of appointed Collector and Receiver of Public Monies has resulted in unspecified duties for Revenue Officers. This resulted in undetected shortfalls in actual collections and summary sheets as noted by the internal auditors.
- Absence of specified duties for appointed officers has resulted in ineffective internal controls.
- No proper procedure for check of balance was established for Kiosk Sales and preparation of summary sheets at the cash office.
- Absence of Inward Remittance Register to enter inward valuable as cash cheques, donations in cash and kind, etc had resulted in missing cheques as reported in the previous years. Donations were also deposited without proper recording in the books.
- Proper adjustment was not done to clear the unpaid cheques.

### Cash Book and Bank Reconciliations

Section 11 of the *Public Finances (Management) Act 1995* provides that public moneys shall be kept in such bank or banks as the Secretary for Finance decides, subject to any specific directions of the Minister, while proper books and accounting reports should be maintained. Perusal of the accounts and records maintained electronically and manually revealed:

- There were a number of accounts opened by the Hospital without the required approval.
- The Friends of the Hospital accounts and Interest Bearing Deposit (IBD) were not disclosed in the financial statements.
- Available manual cashbooks for main Operating Account and Kiosk Account were not kept and maintained in consistent, complete, and acceptable manner. Neither a cashbook nor ledger was maintained for the Trust and the other accounts.

### Payments of Accounts

A review of the procurement and payment procedures revealed instances of irregularities and non compliance with the *Public Finances (Management) Act 1995*. Due to the already collapsed system of controls and non-compliance, selected payment vouchers and related documentary evidence tested for other irregularities indicated that apart from payments not strictly complying with the procedures, incorrect expenditures was also incurred out of Trust Account. Greater concern was raised for payments incurred for cash advances and entitlements in the likes of wages and gratuities out of expenditure vote items without prior consultation to relevant rules and regulations.

Accountable officers have allowed payments to be incurred without due concern of the procedures and purpose of payments resulting in unrecoverable amounts yet to be reimbursed.

### Assets Management

Proper and up to date information on the depleting value of assets and the useful life span of the item was lacking. Although, an Assets Register was maintained and assets properly classified, cost price of assets were in most cases not shown, while other useful information were not up dated. Audit anticipated that it was due to lack of physical stock take.

There was no effective monitoring and reporting system in place to monitor damages, servicing, and registration of vehicles, while proper reports were not submitted periodically to Management for control and insurance purposes. As a result of the ineffective and poor monitoring system, vehicle damages, theft, and major services were not reported or registered.

There were no proper housing policy guidelines in place to facilitate eligibility, rental, maintenance, and terms and condition of the staff housing. As such the following was lacking:

- Maintenances and purchases of household assets for respective premises were not accounted for. It has been noted that substantial amount of monies had been incurred on maintenance and purchases without proper valuation and accountability.
- The ownership of the items purchased for private premises and the recovery of the maintenance cost was at risk in the absence of proper agreement and arrangement during the lease term or in the event the hospital withdraws its agreement. Currently, the lease agreement does not take account of recovering the maintenance and purchases.

#### Management of Advances

A review of the process of management of advances revealed total lack of compliance. It was observed that there was no registration of advances paid to holders and also no acquittal process. There was indication that, although management was aware of the legislative requirements as noted by correspondence by the then Chief Executive Officer, administrative directive was not enforced for compliance.

The Financial Delegates responsibility for the control and management of advances was not effectively performed. The Financial Delegate failed to maintain a register of advances to officers on duty travel, in receipt of cash advances, paid salary advances, and in receipt of financial assistance.

#### Salaries and Wages

It was observed that proper organizational design and structure was lacking in the last few years including 2008 financial year. The current Hospital organizational structure saw a need for compliance to the general policy condition in implementing any forward plan in the absence of a corporate plan.

In the absence of proper delegated responsibility and job descriptions, wages sheet were not checked by appropriate Officers for deductions, additions, and other information to ensure information is accurate and that the correct persons are being paid. A review and assessment of payment of salaries, wages, overtime, and other allowances revealed the following:

- A substantial amount of funds have been incurred for overtime payments without properly acquiring approval. Overtime for Officers is subject to an approval from the Supervisor and must be obtained from Supervisors before an Officer may work extra hours.
- Salary advance have been incurred on a number of occasions to an Officer who was also on payroll on a fortnightly basis. It was noted that a fortnightly amount of K724 was paid to the Officer who was receiving fortnightly salary at the same time. A total sum of K 3,619 was paid to the officer during the first (1 ) two (2) months of the 2008 financial year.
- Payments of on-call allowance were also alleged to have been allowed to certain Officers for purposes of urgent commitment. It is inappropriate for Non-Medical and Dental Officers to work on on-call basis. On- call allowance

is an industrial award for Medical and Dental Officers approved under the Medical Association.

- Controls were not in place to provide assurance that employee contract conditions are complied with. For example, on a number of occasions management has used the special off line payment system for payment of contract entitlements without proper approval and arrangement.
- Absence of the payroll reconciliation has resulted in payments to non-existent employees – i.e. officers no longer working. As at the time of this audit a total of thirteen (13) staff were still on payroll incurring a total amount of K7,411 every pay period. The AGO was informed that there is a technical error by Concept payroll system reactivating the closed employee names. However, that was unacceptable for un-employed persons being paid while responsible officers could not reconcile, identify, monitor, and act accordingly to terminate the names from the payroll.

#### Corporate Governance

The Hospital Management failed to produce a five years Corporate Plan or an efficient Activity Plan, to identify the Hospital's Mission, and Corporate Goals. As a result, the Hospital failed to identify organization, manpower goals and training, financial management, and other priorities derived from the overall Corporate Plan. The line Managers performances could not be assessed in the absence of their performance reports. Their quarterly reports were not compiled for the Management and the Board.

#### **5.4.3 Wewak Urban Local-level Government**

The audit of Wewak Urban Local-level Government for the year 2008 was completed with a disclaimer of audit opinion issued. The general observation was that there were no adequate controls over payment processes, assets, and approvals, segregation of duties and reconciliations, with the risk of misappropriation assessed as very high. Also, the financial statements contained various errors and inaccuracies and were assessed as unreliable.

#### Budgetary Control

The approved Appropriation Act passed by the General Assembly was not provided for audit. The 2008 Urban LLG budget provided for appropriation expenditure in excess of the Revenue by K334,000. The expenditure estimates should be in proportion to the revenue estimates.

The AGO noted an amount of K163,299 representing unbudgeted expenditure incurred out of the trust suspense account which remained accounted for in the expenditure votes.

In the absence of an Appropriation Act certified by the Council Board, the 2008 budget appropriation is not a legal document and expenditures incurred outside of the budget is regarded as misuse of public money and is in violation of the *Public (Finances) Management Act*.

## Revenue

Examination of the revenue ledgers and other records relating to National and Provincial Grants received and Internal Revenue collected during the year revealed the following unsatisfactory matters:

- Year to date actual collection in internal Revenue as per the revenue ledgers was K348,947 as against an estimate of K1,051,000, resulting in a net under collection of K702,053. Significant under collections were noted under eight (8) revenue votes. One of the major contributing factor to the internal revenue shortfall was that there were no proper revenue generating logistics support in place to enable the Urban LLG to adequately follow up and collect promptly all monies due during the year. The Urban Local-level Government lacked qualified revenue officer, qualified debt collector; vehicle for officers to use in collecting revenue and a computer to produce revenue reports that will enable them to regularly follow up on outstanding debts. In addition, there was no accounting software that could regularly process monthly invoices or statement of accounts of debtors.
- Individual Debtors Ledgers were maintained for Trading Licenses, Dump Site Users, Garbage and Sanitation and Land Rates and debtor's listings were compiled at the end of the year. Hence, audit noted a total of K1,844,475 as total outstanding debtors.
- Direct bank deposits totaling K429,906 relating to 2008 and prior years (2004-2007) were not identified and promptly taken up in the Revenue ledgers and cash book including K100,000 being a direct deposit by Provincial Government which was not taken up in the revenue ledger and cash book. This has resulted in the understatement of revenue and the cash book balance.
- Collectors Statements were not posted promptly so that revenue received was accounted for in the revenue ledgers and cash book. These delays ranged from one (1) to five (5) months. Such delays will result in loss of revenue and inaccurate report on revenue figures.
- There was no proper safe in the Cashier's office to lock away the un-banked collections. The cash and cheques collected during the day were simply locked away in a cash box and put in an open cupboard.
- Under banking of revenue totaling K7,143 were noted for collections between 2004 and 2008 with significant under-banking of K5,535 in 2006 and K500 in 2008. No corrective actions were taken to recover the lost revenue.
- Monies received from market takings were not receipted in full, banked intact and properly brought to account in the Revenue ledger and Cash Book. Many instances were noted where Officers were borrowing money from market takings and also incurring expenditure without prior approval from the Section 32 Officer. These expenditures were also not properly brought to account in the Expenditure Ledger and Cash Book. Retention of daily collection of public monies in part or in full by Accountable Officers is prohibited and as such this is in violation of Finance Management Manual.

### Cash Book and Bank Balances

The cash book maintained by the Urban Local-level Government Operating Account for the year 2008 had an overdrawn closing balance of K90,303 as at 31 December, 2008. The credit balance came about as a result of the following:

- Collector statements were not posted promptly for the cash book to reflect a correct cash balance at the end of each month. Direct bank deposits totalling K429,906 were not taken up in the cash book and the cash book was not up dated.
- Unbudgeted expenditure totalling K163,300 were paid through the cash book resulting in excess payment over actual revenue by K105,811. Therefore, the Cash book balance was distorted and misleading to the users.
- The bank monthly reconciliation statements were not reviewed and certified as correct by a senior person.

### Paid Accounts

An examination of the commitment control procedures, warrant authorities cash fund certificates and expenditure ledgers revealed the following irregularities:

- The District Administrator was duly appointed as the requisitioning officer and the financial delegate. His approval limit for expenditures was to sign for expenditures up to K5,000. However, in fifteen (15) instances, payments totaling K130,363 were noted where the District Administrator signed for expenditures over and above his designated limit.
- An amount of K163,300 was expenditure that was incurred over and above the budget limit as a result of poor expenditure controls. This has further resulted in the overstatement of expenditures in the financial statement.
- Instances were noted where payments totaling K10,500 were made to various individuals as financial assistance. This renders to mismanagement of public money as the Wewak Urban Local-level Government is not a charity organization or a profit oriented entity to pay such financial assistance.
- A total sum of K4,000 was paid for rental accommodation for the Town Manager. The contract of employment for the Town Manager and rental agreement signed by him and the landlord was not provided for audit verification. Hence, audit was not able to ensure the validity of the rental payment.
- A register of verbal and written quotations was not maintained by the Urban Local-level Government. Quotes were not obtained from three (3) suppliers to demonstrate due care for economy and avoidance of wastage
- Invoices were not checked and certified as correct for payment by an authorized officer prior to making the payment.
- Paid vouchers for expenditures totaling K309,230 made to various individuals were noted to be confiscated by Police personnel from the Department of

Police following allegations of fraud. As a result, audit was not able to ensure the validity and the genuineness of these payments.

- Instances were noted where individuals were paid for the hire of their machineries/vehicles for official use. Audit was not able to ensure the validity of the hire of these machineries and the basis of the selection.
- Instances were noted where payments made for the hire of casuals and youths for grass cutting were not supported by evidence of receipt of these monies by the youths. These monies were paid as cash advances to Officers and still remain un-acquitted.

#### Assets Management

Periodic (annual) stock take of the Urban Local-level Government's assets and Inventories were not done during the year and previous years. Assets bought in prior years have gone obsolete and were no longer operational were still carried in the fixed asset register.

There were four properties disposed off either during the 2008 year or prior years. Audit was not able to ensure the validity of these disposals as the necessary documents such as sale/purchase agreements, transfer of ownership documents and disposal values were not provided for verification.

#### Salaries and Wages

A review of the records and accounts relating to the payment of salaries, wages and allowances revealed the following weaknesses;

- A Staff Ceiling and the approved pay structure were not provided for audit review.
- Employee Personal files for all Staff employed and paid were not maintained by the ULLG.
- The Urban Local-level Government did not provide a list of all duly appointed Council Members, their designations and the types of allowances they received.
- The tax deductions were not remitted to the Internal Revenue Commission. Further, the wages and salary declaration forms were not filed.

#### Corporate Governance

The Wewak Urban Local-level Government does not have a corporate plan that establishes long term objectives, set priorities and targets and takes into account the priorities of its stake holders.



## 5.5 EASTERN HIGHLANDS PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Eastern Highlands Provincial Government	2009	2008	September, 2010 Disclaimer	Significant control weaknesses identified
Goroka Hospital Board	2008	2008	May 2010 Qualified	Improvements noted
Goroka Urban	2008	No	None	
Daulo	2009	No		
Henganofi	2008	No		
Goroka Rural	2009	No		
Yelia	2006	No		
Lamari	2009	No		
Agarabi	2008	No		
Kainantu Rural	2008	No		
Kainantu Urban	2008	No		
Lufa	2009	No		
Obura-Wanenara	2008	No		
Okapa	2009	No		
Ungai Bena	2009	No		
Akogere Estate	2009	2008	January, 2010 Qualified	Other control issues identified. 2009 audit in progress.
Al's Auto Repairs	2009	2008	January, 2010 Qualified	Other control issues identified. 2009 audit in progress.
Nokondi Investments	2009	2008	January, 2010 Qualified	Other control issues identified. 2009 audit in progress.
Eastern Highlands Property Development Ltd	2009	No		2009 audit in progress.

### 5.5.1 Eastern Highlands Provincial Government

#### General

The results of the audit of the Eastern Highlands Provincial Government financial statements for the year ended 31 December, 2008 were unsatisfactory, with disclaimed audit opinion being issued.

The Provincial Government has not responded to the audit findings reported in a management letter. The paragraphs below detail issues identified with the financial statements.

### Corporate Governance

The Eastern Highlands Provincial Government has a Corporate Plan that establishes long term objectives, sets priorities and targets and takes into account the requirements of its stake holders.

However, the associated plans that need to be established to support the Corporate Plan have not been prepared. These plans are: financial, asset management, human resource, Information Technology, risk management and divisional operating plans.

### Internal Audit

The Eastern Highlands Provincial Internal Audit has been very proactive in carrying out its function. The Unit's Annual Work Plans for the years 2006, 2007, and 2008 were in place and reviews of the plans were done during the year.

The following important audits were carried out by the Unit: Asaroka High School Audit, EHPG Revenues, Provincial Education Division, Audit Report for Goroka Urban LLG, and Audit Report for EHPG development Project(2006-2008). The reports highlighted some serious shortcomings. However, there was no evidence of corrective actions undertaken by the management to address the issues raised.

The management should support the activities of its Internal Audit and prepare a plan to address their concerns. An effective Internal Audit has the potential to strengthen the control environment (of which it is a part) and assist the management in fulfilling its responsibilities.

### Budgetary Control

The Provincial Government passed the Provincial Appropriation Act, No.1 of 2008 authorizing a total of K71,679,400 to be spent during the fiscal year. There was no revised budget during the year.

Comparison of Revenue estimates against the actual Revenue revealed a shortfall in grants revenue by K39,271,000. This was due to non-postings of National Government grants to the respective revenue ledger accounts.

Also, internal revenue was under collected by K983,853 due to unrealistic revenue forecast. This indicates the inability of the Provincial Government in carrying out sound and prudent revenue forecast 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.

Budget Estimate of K2,250,000 in relation to the Members Non-Discretionary Fund were not realized under District Support Grant votes. This has resulted in a significant variance against budget and actual.

Comparison Expenditure estimates against the actual expenditure revealed a shortfall in expenditure by K38,432,400. This was due to non-postings of actual to

the respective expenditure ledger accounts. Internal expenditure estimate was also under-spent by K1,084,800 due to unrealistic expenditure forecast.

In addition, the Provincial Government in 30 instances, incorrectly charged expenditures totaling K899,150 to unrelated vote items.

#### Internal Revenue

The Provincial Government recorded a shortfall of K2,098,841 in respect of its internal revenue sources for the 2008 fiscal year due to the responsible Divisions being inadequately funded and/or under-resourced to effectively carry out their functions.

#### Grants and Subsidies

Grants totaling K4,464,800 were noted to have been made to various recipients during the year. The Provincial Government did not have control mechanisms and guidelines in place to monitor and control the grants. In addition, accountability reports for other grant recipients were not sighted in audit. Without proper accountability reports and control mechanisms in place, the Provincial Government would not know whether the funds were used for the intended purposes.

#### Paid Accounts

A sample selection of 231 significant payments totaling K6,697,223 were examined revealing the following matters:

- A paid voucher totaling K1,339,894 was not provided for audit examination.
- Three competitive written quotes were not sighted in respect of purchases totaling K10,000.
- Payments totaling K195,559 were noted to have been made to a Legal firm for various legal services provided to the Provincial Government. These costs continued to be a major part of the expenditure. However, a register/log for monitoring legal cases against the Provincial Government was not sighted and as such the genuineness of these expenditures could not be verified.
- An expenditure totaling K25,509 being payment for helicopter charter was noted to have been made to a supplier with out any evidence of purposes for which the expenditure was incurred.
- A payment of K15,892 was being made for repair of a private owned hired vehicle. No explanation was provided for this expenditure.

### Procurement Procedures

Examination relating to Procurement Procedures revealed that 42 projects were identified and awarded to various contractors during the year. However, completion stage could not be properly verified due to absence of Certificate of Completion, contractor performance files and project status reports.

### Capital Works and Maintenance

The Provincial Government incurred a total expenditure of K13,991,300 on Capital Works and Maintenance during the year, where K3,921,400 were expended out of the national vote and K10,069,900 from the provincial vote. These expenditures were incurred on new constructions and maintenance of existing infrastructures such as roads, bridges, electricity, buildings and others. Procedural discrepancies noted in relation to the capital works & maintenance are as follows:

- Payment totaling K32,630 being 20% advance payment for a medical doctor's house, Kainantu in 2008. It was noted however, that the necessary paper work and certification was done in June, 2010 but filed under 2008 payments thereby causing unwarranted confusion to the examination process.
- A sum of K150,000 being payment for Tairora High School Dormitory. This payment was made in 2008, whilst the progress payment certificate was done in February, 2009 well after the date of the cheque payment. It appeared this payment has by-passed the normal examination and certification process thus violating the standard payment procedures.
- Number of payments were noted to have been made to various contractors totaling K65,900 for various works. Progressive reports/ completion certificate reports however, were lacking.

### Assets Management

- Assets were not protected against unauthorized use or removal, accidental loss and physical deterioration.
- Fixed Assets Registers were not consistently updated with purchases during the year totaling K723,913. In the absence of a properly maintained assets register, it was not possible to verify the existence of these assets.
- There was no evidence of physical stock-take conducted during the year, nor were inventory check, vehicle control documents, disposal and losses report produced for our examination.

### Trust Fund

The Trust Accounts Summary disclosed 40 Non Bank Trust Accounts relating to transactions which do not form part of the Provincial Government accounts. Eleven (11) of those accounts showed no movements and reflected only zero balances. These accounts should be closed.

The Provincial Trust Ledgers revealed an opening balances in respect of the Trust Clearance and Revenue Fund Holding Accounts as K222,236 and K140,940 respectively. There were no movements of funds in any of the accounts during the year.

#### Salaries & Wages

A schedule of properly updated un-attached Officers was not provided for audit review. As a result, the number of un-attached officers could not be ascertained.

However, according to the Provincial Government's HR division staffing grant expenditure report, an over expenditure of K3,247,673 in relation to the payroll has occurred during the year. The excess of payroll expenditure was the result of payments made to unattached officers that were not budgeted for.

In the absence of a properly updated schedule of un-attached Officers, audit could not draw any appropriate conclusion as to whether the excess of payroll expenditure was the result of payments made to unattached officers that were not budgeted for.

#### Cashbook and Bank Reconciliation

The Provincial Treasury Operating Account revealed favorable balances in its bank and cash book with amounts of K7,437,217 and K4,887,017 respectively. Similarly, the Provincial Government Operating Account revealed favorable bank balances of K10,233,297 and cash book balance of K2,131,477 at year end.

It was noted that there were large reconciliation items for both accounts totaling K29,031,618 that needed to be identified and cleared. Some of these items dated back to the previous years. Notable reconciling items that needed prompt adjustments, for example were: Other Items totaling K7,249,268; Un-presented Cheques totaling K14,304,683; Credits in Bank Statement not in Cash Book totaling K7,280,073; Receipts in Cash Book not in Bank Statement totaling K88,569. And dishonored cheques totaling K51,300.

Under banking totaling K14,823 was also noted of which K1,835 relates to 2008 whilst K12,989 related to prior years (1997 to 2007).

#### Advance Management

There was a complete breakdown in the internal control system of payments, monitoring of the usage and acquittals of various advances.

Cash advances totaling K60,299 made up of National amount of K24,255 and Provincial amount of K36,044 were noted to have been paid to various Officers during the year. They remained un-acquitted at the time of audit.

#### Financial Statements

The financial statements of the Eastern Highlands Provincial Government for 2008 were disclaimed due to:

- The balance of the Provincial Revenue Fund, totaling K8,608,421 could not be confirmed as correct due to errors and material limitation of scope in the previous audit reports. In addition, the operating surplus for the current year was materially misstated.
- The Provincial Revenue Fund, totaling K8,608,421 shown in Statement "A" and in Note 3 to the accounts can not be relied upon as it only consisted of the balance of the operating surplus of K8,608,421. The balance of the Provincial Revenue Fund as at 31 December, 2007 was not carried over as opening balance in 2008. Consequently, the Fund was understated by K6,435,943.
- Various unrelated bank and non-bank trust accounts were incorrectly included in the total cash at bank. The incorrect classification and disclosure of unrelated trust accounts significantly misstated the trust Fund balance and hence, the Consolidated Provincial Revenue Fund balance.
- Note 6 to the financial statements, disclosed a bank balance of K3,427,212 which did not agree to the bank balance of K17,670,514 as presented in Statement "A".

#### 5.5.2 Goroka Hospital Board

Goroka General Hospital continued to improve on its internal controls and operations. It was pleasing to note that the management was very proactive in addressing the prior year audit issues as well as in preparing a good set of financial statements for the year ended 31 December, 2008. Noticeable improvements were in the areas of corporate governance, budgetary controls and calculation and payment of salaries and wages. However, due to the issues detailed below, the financial statements were qualified:

- The Hospital did not update the assets register with details of its fixed assets, nor was an annual stock-take undertaken. Consequently, we were not able to verify the completeness, existence, accuracy and valuation of the fixed assets as at year end.
- There were inadequate inventory records as well as lack of effective in-built systems and procedures (checks and balances), to ensure receiving, storage, issue and usage of drugs and medical supplies were recorded and controlled.

#### Corporate Governance

Goroka Hospital Board has a Corporate Plan in line with the ten year Health Plan that establishes its long term objectives, sets priorities, targets and takes into account the requirements of its stakeholders.

The associated plan to support the Corporate Plan was also established in the year 2008 as Strategic Plan. This plan formulated policies and procedures in management of: patient care, leadership and management, human resources, information technology, environment, and infrastructural development. The

Strategic Plan supports the ten year Health Plan to ensure that strategies are effective and the operations of the Hospital in respect of set targets are met and performance indicators highlighted.

However, at the time of preparation of this report in September, 2010 the Board had not formally endorsed the Strategic Plan.

#### Board Meetings

The Hospital Board conducted four ordinary meetings and six special meetings during 2008. Out of these meetings, 108 resolutions were passed.

The Hospital Board must maintain this trend of passing resolutions and maintaining adequate records of their meetings.

#### Budgetary Controls

The control procedures exercised by the Hospital Board during the year under review have been noted to be satisfactory - in preparation, submission and controlling of funds.

The management prepares quarterly reports and budget reviews which were sent to Budget Division of National Health Department to ensure that Hospital Board meet the set target and objectives, and to inquire reasons for any variances noted.

The Hospital Board should continue to monitor and report on the budgeted items.

#### Cash Book and Bank Reconciliations

I tested five monthly reconciliations in 2008 for both Operating & Trust Accounts and has re-performed the procedures. It was found that the Cashbook and bank accounts reconciliations were satisfactory.

#### Paid Accounts

I selected for testing 68 payment transactions made during 2008. There were no significant issues identified except that Goods Received Notes (GRN) in respect of payments totaling K245,950 were not sighted for audit verification.

#### Revenue

I noted that there had been an inordinate delays in banking of User Fees totaling K308,151 from 2 to 20 working days by the Revenue Officers.

#### Assets and Stores Management

The Hospital maintained an Assets Register. However, the Register was not updated to include the values of the assets. As a result, I was not able to ascertain the accuracy of the assets worth K5,755,200 purchased during the year.

Furthermore, there was no physical stock-take carried out by the Hospital during the year 2008 to update the records and conditions of the assets owned by the Hospital.

Stock ledger cards which records the movement of drugs and medicines from the supplier to the dispensary and from dispensary to respective wards were not produced for audit verification. Unauthorized and uneconomical purchases could be made as a result of not maintaining ledger control cards to monitor stocks movement. Similarly, stock ledger cards which record the movement of rations from the supplier to store room and from store room to the kitchen were also not produced.

#### Salaries and Wages

The Hospital employed 340 permanent staff and 42 casual staff. An audit review of procedures and examination of accounting records in relation to recruitment of employees and payment of their salaries, allowances and wages was conducted during 2008 on a sample of 19 employees and for two pay periods. In particular, the AGO examined the accuracy of paid allowances, tax forms, contract of employment and higher duty allowances. There were no issues identified. Also, proper procedures were followed in the recruitment and selection process.

The Hospital should continue to maintain this satisfactory trend of recruiting employees and making accurate payment of their salaries, allowances and other benefits.

#### Advance Management

As reported in 2007, internal control and monitoring procedures exercised over the repayment of the salary advances remained poor and ineffective. For example, Salary advances amounting to K34,195 (both previous & 2008 year) were noted to have been paid to various employees. Of that amount, K27,035 remained outstanding as at 31 December, 2008.

It should be noted however, that the travel advances paid during the 2008 year were all acquitted.

### **5.5.3 Goroka Urban Local-level Government**

#### General

The audit of the Goroka Urban Local-level Government financial statements for the year ended 31 December 2007 was reported in my previous (2008) year report to the Parliament as not prepared and was to be dispensed. However, I have since received the financial statements for the years 2007 and 2008 and at the time of preparation of this report, the audits of the accounts were in progress.

### **5.5.4 Akogere Estate Ltd**

According to the 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*. The Company manages liquidity risk by maintaining adequate reserves and having adequate banking facilities.

As reported in my 2008 report to the Parliament I have dispensed the audit of the financial statements for the years 1998 to 2003 due to insufficient and poor records, neither was it possible for the management to reconstruct the financial statements for these years.

The audits of the financial statements for the years ended 31 December, 2004 to 2008 have been completed. Except for the other significant matters, the results of the audit were generally satisfactory, with a qualified audit opinions issued on all five audits. Audits contained similar observations, hence, only the 2008 observations are reproduced as follows:

- No proper fixed assets register was maintained to record the movements during the year. Consequently, I was unable to ascertain the accuracy and completeness nor the adequate substantive tests could be performed on the fixed assets.
- Copies of the fixed Assets Valuation report, if any, were not provided for my review.
- I was informed that the company had paid claims for some damages awarded by the Courts but majority of the cases have been successfully defended. However, there was no disclosure in the financial statements to capture cases where contingent liability may arise.
- Review of the property listing and fixed assets depreciation schedules revealed that Akogere had 16 properties listed as owned by the company. I was also informed that the title deeds to these properties were never handed over to the current management by the previous management at the time of the management change-over. At the time of the audit, the company was in contact with the Authorities concerned to resolve the issue.
- I noted that relevant general ledgers and schedules were not regularly and adequately updated to ensure that the current year income were appropriately accounted for.
- I noted no evidence to indicate that a proper Cash Receipts Register nor an official company Receipts Book were kept for all physical receipt of cash other than the direct bank deposits.
- I also noted that no segregation of duties was practiced in acceptance, recording and deposits of cash, bank reconciliations and maintenance of records thereby compromising the occurrence of theft and fraud.
- My review of the purchase documents revealed that major expenditures were solely approved by General Manager with the consent of the only Director. I however, did not sight evidence to suggest that the financial

delegations as to approval limits by the General Manager, the director or the Board was in place for the purposes of prudence and accountability.

- My review of the MYOB produced general ledger and physical filing system revealed that the Management had depended heavily on its systems records without any properly organized physical back-up filing system of records thereby rendering itself immune to the system failure and proper records keeping.
- I noted no evidence of proper records maintained on tenancy agreements in respect of number of properties, hence the basis and correctness of rents due could not be ascertained.
- Employee Personal files were not properly maintained, hence standard audit checks on salaries and other payroll calculations could not be adequately performed.
- The National Superannuation Fund Act requires that employees who have “completed three months continuous service; or have worked not less than 60 days with in a period of six months or less; or have been declared permanent” are eligible to contribute to the National Superannuation Fund (NASFUND). I noted however, that the employees in employment during the year under review have not been considered for fortnightly compulsory contributions of 6%(employee) and 8.4%(Employer) to the NASFUND.
- Relevant records including the Company Constitution/Act, shareholders meeting minutes, Board meeting minutes and resolutions were not available for my review.
- PNG Gold Finance Ltd took over the management role of Akogere Estates Ltd in or around 2004. I was not provided a copy of the signed Agreement for review.
- I noted that the General Manager(PNG Gold Finance Ltd), Is the only signatory to the company's bank account which caters for all three entities – Akogere Estates, Nokondi Investments and AI's Auto Repairs. I viewed this practice as improper and the risk associated is high.
- Copies of share certificates or the investment movement register were not available nor provided for my review at the time of the audit. Consequently, I was unable to determine the accuracy, completeness, nature and value of the reported investments as at 31 December, 2008.
- The movements in share capital and reserve during the year could not be ascertained nor the standard audit checks performed due to absence of appropriate schedules, registers and board minutes.

#### **5.5.5 AI's Auto Repairs Ltd**

According to the accounts 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.

As reported in my 2008 report to the Parliament I have dispensed the audit of the financial statements for the years 1998 to 2003 due to insufficient and poor records, neither was it possible for the management to reconstruct the financial statements for these years.

The audits of the financial statements for the years ended 31 December, 2004 to 2008 have been completed. Except for the other significant matters, the results of the audit were generally satisfactory, with a qualified audit opinions issued on all five audits. Audits contained similar observations, hence, only the 2008 observations are reproduced as follows:

- No proper fixed assets register was maintained to record the movements during the year. Consequently, I was unable to ascertain the accuracy and completeness nor the adequate substantive tests could be performed on the fixed assets.
- Copies of the fixed Assets Valuation report, if any, were not provided for my review.
- Review of the property listing and fixed assets depreciation schedules revealed that Al's Auto Repairs had 4 properties listed as owned by the company. I was also informed that the title deeds to these properties were held with the bank as security on bank loans. I was unable to ascertain or confirm whether the company had properties in the preceding years in the absence of the appropriate records to this effect.
- I noted that relevant general ledgers and schedules were not regularly and adequately updated to ensure that the current year income were appropriately accounted for.
- I noted no evidence to indicate that a proper Cash Receipts Register nor an official company Receipts Book were kept for all physical receipt of cash other than the direct bank deposits.
- I also noted that no segregation of duties was practiced in acceptance, recording and deposits of cash, bank reconciliations and maintenance of records thereby compromising the occurrence of theft and fraud.
- My review of the purchase documents revealed that major expenditures were solely approved by General Manager with the consent of the only Director. I however, did not sight evidence to suggest that the financial delegations as to approval limits by the General Manager, the director or the Board was in place for the purposes of prudence and accountability.
- My review of the MYOB produced general ledger and physical filing system revealed that the Management had depended heavily on its systems records without any properly organized physical back-up filing system of records thereby rendering itself immune to the system failure and proper records keeping.

- Employee Personal files were not properly maintained, hence standard audit checks on salaries and other payroll calculations could not be adequately performed.
- The National Superannuation Fund Act requires that employees who have “completed three months continuous service; or have worked not less than 60 days with in a period of six months or less; or have been declared permanent” are eligible to contribute to the National Superannuation Fund(NASFUND). I noted however, that the employees in employment during the year under review have not been considered for fortnightly compulsory contributions of 6%(employee) and 8.4%(Employer) to the NASFUND.
- Relevant records including the Company Constitution/Act, shareholders meeting minutes, Board meeting minutes and resolutions were not available for my review.
- PNG Gold Finance Ltd took over the management role of AI's Auto Ltd in or around 2004. I was not provided a copy of the signed Agreement for review.
- The movements in share capital and reserve during the year could not be ascertained nor the standard audit checks performed due to absence of appropriate schedules, registers and board minutes.

#### 5.5.6 Nokondi Investments Ltd

According to the accounts 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.

As reported in my 2008 report to the Parliament I have dispensed the audit of the financial statements for the years 1998 to 2003 due to insufficient and poor records, neither was it possible for the management to reconstruct the financial statements for these years.

The audits of the financial statements for the years ended 31 December, 2004 to 2008 have been completed. Except for the other significant matters, the results of the audit were generally satisfactory, with a qualified audit opinions issued on all five audits. Audits contained similar observations, hence, only the 2008 observations are reproduced as follows:

- No proper fixed assets register was maintained to record the movements during the year. Consequently, I was unable to ascertain the accuracy and completeness nor the adequate substantive tests could be performed on the fixed assets.
- Copies of the fixed Assets Valuation report, if any, were not provided for my review.

- Review of the property listing and fixed assets depreciation schedules revealed that Nokondi Investments Ltd had 4 properties listed as owned by the company. I was also informed that the title deeds to these properties were never handed over to the current management by the previous management at the time of the management change-over. At the time of the audit, the company was in contact with the Authorities concerned to resolve the issue.
- I noted that relevant general ledgers and schedules were not regularly and adequately updated to ensure that the current year income were appropriately accounted for.
- I noted no evidence to indicate that a proper Cash Receipts Register nor an official company Receipts Book were kept for all physical receipt of cash other than the direct bank deposits.
- I also noted that no segregation of duties was practiced in acceptance, recording and deposits of cash, bank reconciliations and maintenance of records thereby compromising the occurrence of theft and fraud.
- My review of the purchase documents revealed that major expenditures were solely approved by General Manager with the consent of the only Director. I however, did not sight evidence to suggest that the financial delegations as to approval limits by the General Manager, the director or the Board was in place for the purposes of prudence and accountability.
- My review of the MYOB produced general ledger and physical filing system revealed that the Management had depended heavily on its systems records without any properly organized physical back-up filing system of records thereby rendering itself immune to the system failure and proper records keeping.
- I noted no evidence of proper records maintained on tenancy agreements in respect of number of properties, hence the basis and correctness of rents due could not be ascertained.
- Employee Personal files were not properly maintained, hence standard audit checks on salaries and other payroll calculations could not be adequately performed.
- The National Superannuation Fund Act requires that employees who have "completed three months continuous service; or have worked not less than 60 days with in a period of six months or less; or have been declared permanent" are eligible to contribute to the National Superannuation Fund(NASFUND). I noted however, that the employees in employment during the year under review have not been considered for fortnightly compulsory contributions of 6%(employee) and 8.4%(Employer) to the NASFUND.
- Relevant records including the Company Constitution/Act, shareholders meeting minutes, Board meeting minutes and resolutions were not available for my review.

- PNG Gold Finance Ltd took over the management role of Nokondi Investments Ltd in or around 2004. I was not provided a copy of the signed Agreement for review.
- Copies of share certificates or the investment movement register were not available nor provided for my review at the time of the audit. Consequently, I was unable to determine the accuracy, completeness, nature and value of the reported investments as at 31 December, 2008.
- The movements in share capital and reserve during the year could not be ascertained nor the standard audit checks performed due to absence of appropriate schedules, registers and board minutes.

## 5.6 ENGA PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Enga Provincial Government	2008	2008	April 2010 Disclaimer	Significant control weaknesses identified
Wabag Hospital Board	2007	No		Financial statements have not been submitted
Kandep	2006	No		
Kompam	2006	No		
Lagaip	2008	No		
Ambun	2006	No		
Maip/Muritaka	2008	No		
Maramuni	2007	No		
Paiela/Hewa	2006	No		
Pogera	2006	No		
Tsak	2006	No		
Wabag Rural	2008	No		
Wabag Urban	2007	2007	April 2010 Disclaimer	Significant control weaknesses identified
Wagi (Wage)	2006	No		
Wapenamanda	2006	No		
Wapi/Yengis	2006	No		
Enga Children's Fund Trustee Ltd	2009	2009	July 2010. Qualified Opinion	
Enga Mineral Rev. Stab. Fund	1992			No financial statements. Status of audits to be determined
Enga Construction Authority				Status of the entity/audit to be determined
Enga Engineering				No financial statements; status of the entity/audit to be determined
Porgera LLG Special Purpose Authority(formerly(P D. A)	2008	2008	May 2010 Qualified Opinion	Financial statements issues identified

### 5.6.1 Enga Provincial Government

The audit of the Enga Provincial Government financial statements for the year ended 31 December, 2008 was unsatisfactory with disclaimed audit opinion being issued. The paragraphs below detail issues identified with the financial statements:

- Expenditure for goods totaling K927,020.58 were made on the basis of quotations without official suppliers invoice.
- No advances register has been maintained. In addition, the acquittal of advances had no supporting documentation. As a result, there was a limitation of scope and I could not ascertain the value of the advances and also whether advances were actually utilized for the intended purposes.
- The instrument establishing the Provincial Supply and Tenders Board, and registers maintained to record all tenders invited, quotations received, contracts awarded and Certificates of Inexpediency issued were not provided for my examination.
- Numerous expenditure totaling K1,652,999 relating to the National Executive Council's visit to the Province were wrongly charged under Capital Works and Maintenance vote.
- Payments totaling K3,188,211 were not supported with Requisition for Expenditure Forms (FF3) and as a result, the necessary approvals and authorization were not obtained prior to committing expenditure.
- Accountability statements such as Local Level Governments annual financial statements, disbursement reports from schools and statements from other Provincial Government funded agencies for grants and subsidies totaling K8,053,377 granted during the year were not furnished for verification.

### 5.6.2 Wabag Hospital Board

The Wabag General Hospital has not submitted their financial statements for the year ended 31 December, 2008 for audit.

### 5.6.3 Wabag Urban Local-level Government

The audit of the financial statements of the Wabag Urban Local Level Government for the year ended 31 December 2007 was unsatisfactory with a disclaimed audit opinion. The paragraphs below detail issues identified with the financial statements:

- No segregation of duties was maintained between receipting, recording and banking.
- Collector Statements were either not prepared or checked/verified by the supervisor.



- Individuals were noted to have been engaged to supply some goods and services but there was no indication of proper procurement procedures being followed. These individuals were noted to have been engaged on an ad hoc basis without duly signed contract in place.
- A list of appointed financial delegates and their approval limit, Section 32 Officers and Requisition Officers and their specimen signatures were not maintained and provided for audit examination.
- Under collections were noted under revenue votes during the year totaling K101,840. The significant under collections indicated that the revenue estimates were unrealistic.
- There were no proper separate Advance Registers maintained for recording of cash and travel advances paid. No documentation/record was maintained for acquittals of advances. The audit was unable to determine acquittals which were made during the year.
- The Local Level Government did not have a Corporate Plan for the year 2007 to establish long-term objectives, set priorities and targets and to take into account the requirements of its stakeholders.
- Eleven payments totaling K18,850 were made to the paying officer instead of the contractors who performed the various maintenance works.

#### 5.6.4 Porgera Development Authority

The audit of the 2007 and 2008 accounts were completed, with qualified opinion issued in May, 2010. The issues identified in 2007 and 2008 audit of the financial statements were similar hence, only for 2008 are reproduced below:

- The Trust Account held on behalf of the landowners by the Porgera Local-level Government Special Purpose Authority has been reflected in the Authority's accounts as current assets and reserves. This incorrect treatment has inflated the assets and reserves by K3,102,648, and was not consistent with the accounting standards for recognition of assets and reserves.
- Properties, plant and equipment, motor vehicles, furniture and fittings and office equipment with a net book value of K13,114,217 which had been constructed or maintained by the Authority for and on behalf of the Enga Provincial Government have been incorrectly taken up as fixed assets owned by the Authority.
- Tax Returns were not filed nor the monthly reconciliation of the Goods and Services Tax(GST) control accounts performed resulting in debt of K577,390 due from the Internal Revenue Commission.
- Account Receivable balance of K2,936,459 incorrectly included a non-collectible GST debts of K1,487,741.
- The Authority had not performed year-end stock-take of its inventories thereby understating the value of inventories by K2,988,741.

- Payment vouchers and other supporting documents were either missing misplaced or not available to substantiate expenses incurred.
- The Authority has no titles for the land on which it had constructed school buildings and Aid Posts for and on behalf of the Enga Provincial Government, and residential and other properties at a net book value of K12,374,509.
- Cash advances for Board travel allowances of K245,176 have not been properly acquitted.
- The Authority disclosed investments of K2 relating to 100% shareholding in Paiam Management Company Ltd. This company was not trading at profit and is entirely dependent on the Authority for its existence. I was not provided the latest financial statements of the company to satisfy myself as to the accuracy and completeness of the account balance at year-end.
- Board Members' monthly allowances and sitting allowance have been paid at an increased rate in breach of the Authority's Act.
- No proper tender procedures were adhered to for procurement of legal and other contractual services.
- Tax Returns in relation to Goods & Services Tax, Group Tax and Business Withholding Tax were not filed
- The Authority has a physical over-commitment on the Porgera Hospital of K1.5million a year due to the inadequate release of quarterly allocation by the National Government, and a budget deficiency of K327,296 due to continued retention and funding of the operations of the Paiam Management Company Ltd – a company that is unable to sustain itself as reported in the previous years.

#### 5.6.6 Enga Children's Fund Trustee Ltd

The audit of the accounts for the years 2001 to 2006, 2007, 2008 and 2009 were completed with an un-qualified opinions issued in March, May and July, 2010 respectively. The 2001 to 2009 opinion reports contained no qualifications but included number of similar internal control weaknesses, hence only those of 2009 are summarized below:

- An unsecured, interest-free share-holder loan of K524,377 payable on demand, provided to Enga Provincial Government was not supported by any formal agreement.
- Payment of Directors' allowance totaling K64,0000 could not be verified to the Trustees' operational policies.

## 5.7 FLY RIVER PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Fly River Provincial Government	2009	2008	June 2010 Disclaimer	Audit of 2008 controls completed with significant issues identified
Daru Hospital Board	2004	2005 to 2008 statements dispensed	None	Interim audit of 2008 completed
Balimo Urban	2007	No		Audit to be dispensed
Bamu	2007	No		
Daru Urban	2007	No	November 2009 Disclaimer	Significant control weaknesses identified
Gogodala	2007	No		
Kiunga Urban	2008	2008	September 2009 Disclaimer	Significant control weaknesses identified
Kiunga Rural	2007	No		
Kivai	2007	No		
Lake Marray	2007	No		
Morehead	2007	No		
Ningerum	2008	No		
Nomad	2007	No		
Olsobip	2008	No		
Oriomo	2007	No		
Star Mountain	2008	No		
Wyben Hotel Ltd				1995 – 1996 records destroyed by fire; No recent financial statements submitted.
Fly River Doctor Service				No recent financial statements; Status of the entity/audit to be determined. Entity is not registered at IPA.

### 5.7.1 Fly River Provincial Government

#### General

The audit of 2008 financial statements was completed and the management letter was issued in August 2009. The audit findings were provided to the management for their consideration and comments. No responses were received until the date of this report. The paragraphs below details control issues related to the 2008 year. It was noted that the Provincial Government through the Provincial Treasury and the Provincial Administration staff have not responded well in respect of providing basic but essential accounting books and records for audit purposes. Basic records were not maintained and supporting documents requested for audit were not provided.

#### Cash Book and Bank Balances

In my previous management letters, I highlighted the deficiencies regarding cash management and bank reconciliations. No action was taken and the same deficiencies were carried forward into the 2008 bank reconciliations:

- Of the Other Reconciling Items totaling K5,622,220, adjustments of K2,897,794 relate to 2007 year and prior years, while adjustments in 2008 totaled K2,724,426.
- The amount of K8,099,510 were all bank deposits and other credit entries, which needed to be entered into the cashbook through journal entry.
- Un-presented cheques totaling K11,641,168 that were outstanding for more than one year should have been cancelled. Further, the list of un-presented cheques was not attached for audit verification.

#### Revenue Collections

There was no monitoring of cash collections from the Cash Offices in Tabubil, Balimo and Daru. Consequently, revenue collections from these offices could not be verified. Further, all cash offices were not linked up to the PGAS receipting system and there was no monitoring, inspection and verification of collections and banking of revenues.

#### Payment of Accounts

The examination and verification of paid vouchers and related records and documents on a random basis revealed that most paid vouchers were not certified by the Certifying Officer in the Treasury and cheque numbers were not recorded on the vouchers. Paid vouchers were not filed in order. They were left in boxes without any sequential order.

#### Capital Works and Maintenance

The perusal of the cash books has revealed payments for capital works and maintenance purposes totaling well over K12 million during the year under review. However, files and register containing details of PSTB members, PSTB Meeting

Minutes with resolutions and endorsements/approvals of project, Tender and Contract files, Authority for Pre Commitment (APC) files and Progress and Completion Reports/Certification of completion of projects undertaken requested for audit scrutiny were not made available.

Without the above documents this Office was unable to verify whether:

- Projects had been satisfactorily screened and awarded to contractors.
- Proper contracts were signed to safeguard the interest of the Provincial Government.
- Projects undertaken have been properly monitored and satisfactorily completed as per the project design and scope.
- Competitive quotes were obtained from three suppliers of goods and services.

#### Assets Management

No Assets Register was provided for audit examination. Consequently, this Office was unable to verify whether all assets purchased and owned by the Provincial Government were registered, were properly allocated and were monitored to ensure proper control and use of assets.

The Provincial Government spends substantial amount of money every year on asset purchases. A sum of K4,106,611 was noted as being spent in 2008. When registers are not kept and no physical verification of assets is conducted, there is a high risk that assets could go missing or stolen without being reported.

#### Grants and Subsidies

Grants and subsidies paid totaling K10,058,645 were not acquitted by way of reports by the recipient entities and individuals to ensure funds were used for the intended purposes. Also, there was no evidence to suggest that the grant applicants were screened and assessed prior to awarding the funds.

#### Advance Management

Total outstanding advances listed was K7,604,147 as at 31 December 2008. This balance could not be relied upon as audit test revealed over K1,664,740 in advances paid that remained unrecorded in the advance register. There had not been any recovery attempts made nor reminder notices sent to officers who had outstanding advances to acquit them. Further, subsequent advances to officers with prior un-acquitted advances were also made.

#### Salaries and Allowances

The Human Resources Division and the Provincial Assembly Services Division of the Provincial Government are still operating from Daru and have not been moved to Kiunga yet. Hence, all documents relating to salaries and allowances and personal files of contract officers requested for audit were not made available.

### Investments

The Provincial Government reported Capital Investments of K306,161 held in five entities. However, only the investment in Ramu Sugar could be confirmed that existed as at 31 December 2008. I was unable to verify the existence of the remaining investments as no share certificates and Investment Registers were made available for my verification.

Further, The Provincial Government had acquired a work boat -MV Danaya in 2007. The investment in the acquisition of the boat was not shown in the 2008 financial statements. Expenses in relation to wages and other operational cost of the boat during 2007 and 2008 amounted to K2,238,703.

### Corporate Governance

The Provincial Government does not have a corporate plan for the year under review that establishes long term objectives, sets priorities and targets and takes into requirements of its stakeholders.

The associated plans that need to be established to support the corporate plan have not been established. These plans are financial, asset management, human resource, information technology, risk management and divisional operating plans.

### Internal Audit

Internal Audit Unit was in operation. The AGO requests for any internal audit reports, however no such reports were made available from review. Further, annual audit plans, programs and activities, if any, produced by the Internal Auditor were not made available.

#### **5.7.2 Daru Hospital Board**

The Hospital has not submitted its 2005 to 2008 financial statements and as a result the audits were dispensed. However, the interim audit of 2008 accounts and records were done and a management letter containing audit findings was issued to the Hospital in April 2009. No response has been received from the Hospital and no financial statements were submitted at the time of this report.

The results of the audit were unsatisfactory and details of those were reported in my last year report.

#### **5.7.3 Kiunga Urban Local-level Government**

Kiunga Urban Local-level Government submitted their 2007 and 2008 financial statements in April 2009 and the audits were completed. A disclaimer of audit opinion was issued for 2008 financial statements in November 2009. The general observation was that there were no adequate controls over payment processes, assets, and approvals, segregation of duties and bank reconciliations, with the risk of misappropriation assessed as very high. Also, the financial statements contained various errors and inaccuracies and were assessed as unreliable.

### Cash Book and Bank Balances

The PGAS Cash Book was not properly maintained, in that not all receipts were recorded in the cash book resulting in over drawn balances throughout the year. For example, the cash book had an overdrawn balance of K362,770 as at 31 December 2008. There were a large number of unreconciled balances remaining in the Cash Book that needed to be cleared. For example, receipts in cash book not in bank statement was K20,310. Out of this total, the amount of K12,960 related to the year 2003.

### Revenue

No segregation of duties in collection of revenue, banking and raising of Receiver Statement, existed. Revenue collections totaling K33,753 were not posted to the revenue ledger. Delays in banking of up to 48 days were also noted.

### Paid Accounts

A check of selected payment vouchers to ascertain compliance with payment procedures revealed the following non-compliance and irregularities:

- No segregation of duties was noted between Section 32 and financial delegate in almost all of the payments.
- Payments totaling K10,436 were made for hire vehicles without approval.
- Fifty one (51) claims totaling K194,137 were made without the certifying officer certifying the payment vouchers. In addition, three (3) claims totaling K15,450 were with altered amounts and were not signed by the financial delegate.
- Twenty (20) payments for projects totaling K35,000 were not signed by recipients on the timesheets.
- A cheque with an amount of K11,062 was paid for landscaping work. A physical inspection of the project revealed the work was not sufficient and the payment made was considered excessive.
- A payment of K18,600 was made to a person being for repair of damages for the Toyota Hilux vehicle owned by the Local-level Government. Audit inspection of this motor vehicle indicated that the damaged vehicle was not repaired. In addition, no police report was made.

### Assets Management

Assets Register was not maintained for the year 2008, to record all assets owned by the Local-level Government including land and buildings, motor vehicles, office equipment and fixtures. There was no evidence of physical verification or stock-take being conducted during the year.

#### **5.7.4 Daru Urban Local-level Government**

Daru Urban Local-level Government's audit of accounts and records from 2004 to 2006 were dispensed due to no non-submission of financial statements. The 2007 financial statements were submitted and the audit was completed with the management letter issued.

The general observation was that there were no adequate controls over payment processes, assets, and approvals, segregation of duties and bank reconciliations, with the risk of misappropriation assessed as very high. Also, the financial statements contained various errors and inaccuracies and were assessed as unreliable. Details of these issues were reported in Part III of the Auditor-General's report for 2008.

The management of Daru Urban Local-level Government did not respond to the audit findings reported. No financial statements were prepared for 2008 year.



## 5.8 GULF PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Gulf Provincial Government	2006	2006	January 2008 Disclaimer	No 2007 financial statements submitted, however, interim audit of 2007 completed
Kerema Hospital Board	2008			Audit of 2008 statements is in progress
Kerema Urban	2004	2004	2005 to 2008 reports dispensed with	No financial statements issued after 2004, however, audit of controls completed for 2008
Baimuru	2003	No		
East Kerema	2002	No		
East Kikori	2004	No		
Ihu	2005	No		
Kerema Central	2004	No		
Kotidanga	2004	No		
Taure Lakekamu	2002	No		
West Kikori	2003	No		
Kaintiba	2004	No		
Gulf Investment Trust Fund	2003			1996 – 1998 audit in progress, 1999 - 2003 audit fees awaited, 2004 - 2009 financial statements not submitted
Gulf Papua Fisheries	2000			1997 – 2000 audit fees awaited; 2001 – 2008 financial statements not submitted
Southern Star	2002			No recent statements submitted for audit

### 5.8.1 Gulf Provincial Government

The Gulf Provincial Government submitted its 2004, 2005 and 2006 accounts for audit in May 2008. The audits were completed, with management letters issued. The audit opinions, issued in February 2009 for the three years were disclaimed.

The interim audit of 2008 accounts was done without the financial statements. The interim management letter was issued when this report was prepared.

The control environment was still lacking adequate procedures and could not ensure accuracy and completeness of transactions. The Provincial Government through the Provincial Treasury and the Provincial Administration staff has responded very poorly in respect of providing basic but essential accounting books and records for audit purposes. The risk of fraud and misappropriation occurring and remaining undetected was also high. The paragraphs below detail the internal control issues identified in 2008 audit.

#### Corporate Plan and Corporate Governance

The Provincial Government did not have a Corporate Plan for the years ending 31<sup>st</sup> of December, 2008 and prior years. Thus Audit could not comment further on its planned activities and set objectives.

#### Budgetary Control

The GPG's Appropriations Act 2008 on 11<sup>th</sup> January, 2008 and appropriated for a total revenue and expenditure of K44, 488,700. Reconciliation of the expenditure based on the accounts and records revealed that K11, 468, 143 was verified to the ledger accounts maintained by the Provincial Government excluding the salary components, while K33, 020, 557 could not be verified to the ledger.

Salary components of the Provincial Public Servants (K7. 375,000) and Teachers salaries (K7, 167,900) totaling K14, 542,900 were actually received and were confirmed. Taking into consideration the above under spent (K33, 020,557) less the salary components (K14, 542,900), it is seen that Gulf Provincial Government's budget is still under spent by K18, 477, 657.

#### Cash Book and Bank Reconciliations

The AGO review of cashbooks, monthly bank reconciliation statements and bank statements of the Provincial Treasury and the two Provincial Government Operating accounts revealed the following observations.

- There was no bank reconciliation being done for the Gulf Provincial Government's operating bank account since 2002.
- The PGAS Cash Book maintained was unreliable as revenue receipts were not posted to the revenue ledgers. The cash book was also overdrawn throughout the year.

#### Revenue

The revenue ledgers maintained did not have the details and records of all the grants that were received from the National Government. It was noted that the revenue ledger records were never updated as soon as CFC's and Warrant Authorities were obtained from the Department of Finance, and as a result nil records of grant revenue from National Government were sighted on the revenue transaction records.

It was noted that there were no supporting documents such as collector statements deposit books, etc on the internal revenue account no. 1000943231 BSP, which was being maintained outside of PGAS records.

Examination of receipts, collectors' statements, revenue summary reports and deposit slip records of accounts maintained under PGAS, revealed serious instances of deficiencies and irregularities as outlined below;

- Banking were delayed from a minimum of 7 days to a maximum of 52 days,
- Excessive borrowing of funds (from un-banked cash collected) were facilitated and no proper records were kept;
- Deposit slips were not sighted to confirm whether or not cash collected was actually deposited. As a result, AGO noted a total of K3, 920 was under banked.
- Segregation of duties was never maintained. Thus AGO noted only one person doing the cash collection, receipting, balancing and often does the banking. This poses a very high risk of cash handling as public funds can be fraudulently misappropriated.

#### Payments of Accounts and Procurement Management

Review of Paid Vouchers and related records pertaining to payment of accounts revealed the following;

Appointment of financial delegates and the bank account signatories were said to be formerly done but appointment instruments were not provided for AGO's verification.

My office was reliably informed that most of Provincial Government claims do not follow formal procedures of section 32, instead all the claims are approved for payment by the acting Administrator before it comes to the examiner and the certifying officer. The examiner and the certifying officer do not play their roles in this part of the payments as their powers have been over ridden.

My office selected samples of payments worth K1000 and above and were submitted through the Provincial Treasury's Accountant and Treasurer on the 22<sup>nd</sup> of April, 2010 to provide the paid vouchers to test for proper internal controls whether or not adhered to in the processing of payments and the compliance to Public Finance Management Regulations in the procurement of goods and services.

However no paid vouchers were provided to date, thus audit was unable to justify and comment on the accountability procedures being maintained.

In three hundred and nineteen (319) instances, payment vouchers totaling K1, 241,218 for office and operational materials and supplies including other operational expenses were not provided.

My office also noted that massive reimbursement of funds was being facilitated for money being borrowed by individuals of the provincial Government for various reasons. A total reimbursement of K145, 922 on thirty-one (31) instances of payments for funds that were borrowed by the Provincial Government from other business houses and individuals, and personal reimbursements to the Provincial Government staff.

In seventeen (17) instances, payments totaling K62, 357 which were made to various service providers for minor maintenance work were not supported with the following; the Assembly's approval for the maintenance work, Maintenance request from respective sections of the Provincial Government and inspection and completion reports.

In ten (10) instances, payments totaling K49, 829 were made for training of officers in various institutions were without the following; The Human Resource Management's approval for the training and Management's endorsements for all these training were not in place.

I also noted that excessive uncontrolled usage of utilities including power and mostly telephone had cost the Provincial Administration massive amounts.

#### Capital Works and Maintenance

I requested for Provincial Supplies and Tender Board meeting minutes, list of contractors including values of contracts awarded to Provincial Works Department as well as private contractors had no positive responses during the time of audit.

#### Assets Management

An Assets Register was not maintained by the Provincial Government for the year under review as well as for prior years to record all assets purchased by the Provincial Government.

#### Management of Advances

Advance Register was never maintained; instead advances including cash and travel were recorded manually on ledger cards for individual advance holders. However I have noted serious concerns such as;

- The actual details of the purpose of the advances being made were literally not stated on the ledger records. And as such, I could not confirm the genuineness and reliability of all the advances paid.
- Cheque numbers of the amounts advanced were not recorded on the ledger,
- Additional advances were given while previous advances were still outstanding.

In Two hundred forty seven (247) instances of payments totaling K848,24 for cash advances, vehicle hires as well as accommodation and airfares paid to officers

of the Gulf Provincial Government, individuals and various service providers lacked proper documentations.

#### Salaries, Wages and Allowances

Review and examination of payroll, wages and salaries and their records revealed the following unsatisfactory matters;

Based on the information provided during the time of audit, Gulf Provincial Government had a total of 417 staff comprising of 340 who are permanent public servants while 77 are all casuals.

I have noted that most of the casuals who have been employed were not engaged through the formal employment procedures and guidelines by the Human Resource Division but they (casuals) were appointed by the higher ranking executives such as the Governor, Provincial Administrator and Deputy Administrators and other senior officers of Gulf Provincial Government. As a result, the following matters were noted;

- No clear monitoring of staff performance and appraisals,
- More than 25 security guards were being employed and were getting paid but I did not physically sight them performing their duties on a full time basis. I noted that most of them including other related casuals were getting paid for not performing tasked duties.
- Casual wages were paid on an ad-hoc basis instead of regular fortnightly payments. This could pose serious implications against the Provincial Government when employees seek for legal assistance to sue the Provincial Government.

Fluctuations on salaries and allowances on eight (8) instances of seventeen (17) tested samples of permanent employees on PPE numbers 01, 13 and 26 had no permanent variations, staff advice, and employee appraisal of promotions or any other related documents sighted to confirm for validity of these salary fluctuations.

I have noted on forty-six (46) instances of payments totaling K648, 882 made for recreation leave fares for the officers however, the paid vouchers were not provided to confirm the validity of the payments made.

#### Trust Accounts

An entity named "Gulf Investment Trust Fund", with a Bank South Pacific Account (No.1000490430) is in existence. I have noted that the operation of this entity is currently located at 8<sup>th</sup> Floor of ANG Building, Down Town, Port Moresby and is managed by a Managing Director. Details of this Trust Account along with their accounting records are yet to be established and audited. I was informed that all source documents and records relating to this Trust account are kept in the office they are currently operating.

#### Investments

No Investments Register was provided for my review.

#### PEC and Assembly Meeting Minutes

The PEC and Assembly Meeting Minutes and Resolutions for the years 2008 were requested but none were made available.

#### Internal Audit

Although, an Internal Audit Unit was in operation, the internal audit has not provided any report or Annual Audit Plans and Programs for my review.

### **5.8.2 Kerema Hospital Board**

Kerema Hospital submitted their 2008 financial statements in October 2009. This audit has been completed, with management letter issued and awaiting management responses.

### **5.8.3 Kerema Urban Local-level Government**

Kerema Urban Local-level Government has not submitted its 2008 financial statements; however, audits of the controls environment for 2008 had been finalized with management letter issued.

#### Corporate Governance

Kerema Urban LLG (KULLG) does not have a Corporate Plan for the years 2004 - 2008. The Plan establishes long term objectives, sets priorities and targets; and takes into consideration the requirements of its stakeholders.

Further, the associated plans that need to be established to support the corporate plan have not been established. These plans include financial, asset management, human resource, information technology, risk management and divisional operating plans.

#### Books of Accounts and Records

The Kerema Urban Local-level Government through the Provincial and District Treasury staff and the Administration staff have not responded positively in respect of providing basic but essential accounting books and records for audit purposes for the year 2008, although requested.

#### Financial Statements

Kerema Urban Local-level Government has not submitted its 2008 financial statements; however, audits of the controls environment for 2008 have been finalized with management letters issued.

### Budgetary Control

Copies of the Appropriation Acts (original and revised) passed and certified by the Urban Assembly including the ministerial approval and other related documents were not available for audit examination, although requested.

### Cash Books and Bank Reconciliation Statements

Accounting records including the cashbooks, bank statements, bank reconciliation statements, specimen signatories to bank accounts including the trust deed for the Kerema Market Trust Account was not made available for audit examination, although requested.

### Revenue

Bank Deposit slip books, revenue transaction ledgers, cancelled cheques register, were not maintained; official receipt Books have been removed by the former management; collector statements were not prepared and maintained for the years 2008. It was confirmed in by the management that the above records were either not maintained or removed from the Office by the former management.

### Procurement and Payment Procedures

Audit review, inspection and verification of paid vouchers and related records on sample basis revealed the following concerns:

- Expenditure ledgers were not maintained;
- Specimen signatures for authorized financial delegates were not prepared and maintained resulting in all payments being made without approval;
- Payment voucher details were not properly prepared and maintained prior to payments being made;
- All payments were made without supporting documents;
- Ten (10) payments totaling K18, 390 were made for outstanding allowances and service entitlement to councilors without any calculations prior to the payments being made,
- Three (3) payments totaling K10, 500 were made without the required payment vouchers,
- Eight (8) payments totaling K15, 580 were paid as cash advances and refund of personal monies used by the Town Manager, Town Mayor and Team for budget presentation in Port Moresby. Supporting documents were not attached for the refunds including acquittals made after the trips,
- Seventeen (17) payments totaling K55,990 were made however, these cheques were not presented at the bank,

- A payment of K600 on cheque No. 799972 was paid to the Town Manager, Mr Jack Mokoko, on 10<sup>th</sup> March 2008 for extension of travel for budget presentation in Port Moresby. However, verification of this payment in the bank statement revealed the actual cheque amount was K2,930,
- Monthly expenditure reports were not prepared and maintained.

#### Assets Management

Assets register was not maintained to record assets owned by the Kerema Urban Local-level Government and no physical verification of assets was undertaken by the management.

#### Advance Management

Advance register was not maintained for recording of cash and travel advances for the prior years as well as 2008. Advances totaling K15, 580 paid during the year 2008 could not be traced to any register.



## 5.9 MADANG PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Madang Provincial Government	2008	2008	February 2010 Disclaimer	Significant control weaknesses identified
Modilon Hospital Board	2008	2008	November 2009 Disclaimer	Significant control weaknesses identified
Almami	2005	No		
Ambenob	2008	No		
Arabaka	2006	No		
Astrolabe Bay	2008	No		
Bundi	2006	No		
Iabu	2005	No		
Josephstaal	2008	No		
Karkar	2005	No		
Madang Urban	2008	2008	November 2009 Disclaimer	Significant control weaknesses identified
Kovon	2006	No		
Naho Rawa	2008	No		
Nayudo	2008	No		
Raicoast	2008	No		
Gama	2006	No		
Simbai	2006	No		
Sumgilbar	2005	No		
Transgogol	2008	No		
Usino	2006	No		
Yawar	2005	No		
Madang Development Corporation		No		1995 – 1996 management letter responses and signed financial statements awaited; 1997 – 1998 audit fees awaited/audits to be determined;

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
				1999 – 2008 financial statements not submitted
Madang Slipway Ltd				Entity deregistered on 31 July 1995.

### 5.9.1 Madang Provincial Government

#### General

The audit of Madang Provincial Government's 2008 accounts was completed. Although, some improvements were noted compared to the previous year in relation to payments of accounts, the control environment was still lacking adequate procedures and monitoring and could not ensure accuracy and completeness of transactions. The risk of fraud and misappropriation occurring and remaining undetected was high. The paragraphs below detail the issues identified.

#### Revenue Collection

Controls surrounding revenue management in terms of collecting revenue, maintenance of records, data monitoring and reporting were insufficient and ineffective.

- Basic records such as the registers of vehicles and liquor outlets were not maintained. Source data for checks of balances were not available at the cash office.
- Data input and recording was poorly done. Where the charges, fees, commissions and imposts depended on the cost of services provided, the rate of charges, fees and other revenue items were not reviewed continually, (and before submitting annual budget estimates).
- Reporting was observed to be on an adhoc basis. Proper and consistent reporting system was not in existence in order to keep the management fully informed of the progress in revenue generation and to initiate timely remedial action where shortfalls were expected. Management failed to install a management reporting system and make sure that it operated satisfactorily. Reports were not produced for management purposes due to insufficient records and data on hand. In addition, there was no routine inspection or follow up conducted. Outstanding fees and fines anticipated, the reports could not be compiled due to insufficient records and relevant resources, resulting in no outstanding fees and fines collected as at 31 December 2008.

- Under banking was noted in nine (9) instances totaling K7,278. Notable under banking was incurred in 2008 financial year amounting to K6,195. Recovery action was not instituted on responsible officers in order to recoup the monies not receipted.
- Revenue reconciliation and reports were also not compiled on a monthly basis. Consequently, any outstanding receipts from fees and fines, business receipts, and other miscellaneous items as at 31 December 2008 could not be disclosed.

#### Bank Reconciliations

Both bank reconciliations of the Provincial Government's Operating Account and Provincial Treasury Operating Account as at 31 December 2008 contained outstanding items dating back to 2001. These items should have been investigated and cleared from the reconciliation.

#### Grants and Subsidies

Grants and subsidies paid were not acquitted by way of reports by the recipient entities and individuals. Also, there was no evidence to confirm that these had been sought.

#### Paid Accounts

Payment of accounts process had some improvements compared to the previous year. The following issues were still outstanding and noted in 2008:

- Proper recommendation to endorse contractors on merit was lacking. Audit is of the view that due to lack of technical and expert advice, the Board had been awarding contracts without proper consultation, advice, and recommendation. It was noted that the performances of some contractors were poor, while some contractors did not meet the required needs for performing or undertaking contractual obligation. One instance was a contractor (unregistered company from 5 June 2008 to end of March 2009). During the de-registration period, the contractor was awarded a contract to the value of K100,000 and a contract agreement was signed in the absence of proper documentations. The checklist was also marked as if the checks were performed.
- Contractual obligation awarded to three (3) contractors for maintenance of the Madang Haus Tumbuna was paid in full on a justification endorsed by the Provincial Works Advisor. Total amount of K100,000 was allocated and fully paid to the contractors whereas physical verification have confirmed that the maintenance jobs were not completed.
- An adjusted claim amounting to K124,626 was made being for payment of outstanding account agreed upon through the signing of a Deed of Release. The Deed of Release was noted to have been signed in isolation without the presence of the Provincial Treasury. As a result, the outstanding claim signed on the Deed of Release was incorrect. The total outstanding

claim of K140,435 signed on the Deed of Release comprised invoices which have been paid in the previous years.

- Lack of adherence to procurement and payment procedures was the absence of three quotations to determine the least and most economical cost to purchase goods and services.

#### Assets Management

Centralized Assets Register has not been maintained for 2008 and for the previous years. In addition, no periodic stock takes were conducted.

The vehicle fleet list (register) did not contained relevant details of vehicles such as engine number, chassis number, date of purchase of vehicles and cost of the vehicles. Moreover, it was noted that vehicles were damaged through careless driving, thefts, and other form of losses which were not reported.

#### Capital Works and Maintenance

The Board has not exercised its power to ban incompetent contractors from getting another project pending completion of a previous job or to penalize the contractor for not complying with the agreed terms and conditions of the project. Project Status Reports were not presented by the Works Division. Neither an expert evaluation nor contractor's profile was made to the Board for awarding tenders. Furthermore, absence of proper and routine supervision and inspection on project site to assess compliance and performance have resulted in performance deficiencies such as contractors not complying with job specification and work scope of project works or maintenance, delays in either commencement of project works or completion time as agreed. Such inefficiencies resulted in significant amounts of monies paid for poor work or no work done.

#### Advance Management

Although, there were improvements in the control over the payment and acquittal of cash and travel advances, resulting in the reduction of outstanding advances, improvements are still required in the following areas: providing sufficient documentation when acquitting the travel advances, long term un-acquitted advances from previous years and providing new advances to officers who had previous advances outstanding.

#### Corporate Governance

It was pleasing to note the existence of the Corporate Plan that addressed six (6) important Key Result Areas (KRA's). They were internal management co-ordination and direction; mobilize support of key stake holders, budget and financial management, human resource management, physical asset management and operational performances management and technical systems.

## 5.9.2 Modilon Hospital Board

### General

The audit of Modilon's General Hospital accounts for the year ended 2008 was directed primarily to the evaluation of internal control systems, to examine the performance of financial operations with a view to assess the reliability and integrity of the financial statements and the extent of compliance with laws, regulation and directives.

### Financial Statements

Finance Instructions 2/2004 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 Public Bodies. The financial statements of Madang General Hospital did not contain mandatory statements, such as: Statements of Changes in Net Cash Assets, Schedule of Capital Assets and Liabilities and Notes to the Accounts. Subsequently, the financial statements were not presented in the format required by the Finance Instructions.

The quality of the financial reports produced was poor as they contained a lot of errors and inconsistencies such as application of incorrect accounting treatment, resulting in over and understatement of figures disclosed in the financial statements. Due to this and the control weaknesses identified in the 2008 the audit opinion of the 2008 financial statements was disclaimed.

### Financial Management Process

A review of the control systems operating within the Finance and Administration Section was conducted to check whether sound and proper systems and procedures were operating and that the Financial Management guidelines have been effectively operating within the Division. In doing so, the following observations were noted:

- A formally documented internal Finance and Administration policies and procedures that adequately encompass all of the Hospital financial management activities and appropriately specify internal control mechanisms were lacking. An Accounting Manual was also not maintained by the Hospital.
- There was no appointment of Financial Delegates to approve expenditure under Section 32 of the *Public Finances (Management) Act 1995*.
- It appeared that the CEO, DFA and the Accountant were acting as Section 32 Officer, Financial Delegate and Certifying Officer respectively while they were also signatories to the two (2) bank accounts. There was no segregation of duties and considerable risk of fraudulent transactions occurring.
- Specimen signatures and their approved designated financial limits for approving expenditure were not held in file, hence, audit could not verify

the signatures on the requisitions and copies of cheques and also whether they were approving expenditure within their designated financial limits.

- Proper financial or budget control mechanisms were not in place or adhered to, which resulted in over commitments during the year. Manual Commitment Ledger cards maintained were not adequately updated to reflect the correct funds position under each expenditure items, resulting in over commitments through out the year.
- The appropriation funds made available by the Department of Health by way of Cash Fund Certificate were over committed under five (5) expenditure vote items totaling K239,709. Such actions indicate poor budgetary control practices by the management.

#### Scope Limitation

- There was limitation of scope arising from bank balances due to the inability of the Hospital to maintain proper cashbooks and perform timely bank reconciliations of the Operating and the Trust Accounts. Consequently, I was unable to verify the accuracy and completeness of the closing fund balance of K553,696 disclosed in the financial statements.
- In absence of complete and enabling records for audit examination, I was unable to verify the values of medical supplies, accounts receivables and payables, capital commitments and contingent liabilities, if any, at year end.
- All fixed assets, except for land transferred to Madang Hospital Board, have not been brought to account, including assets purchased in 2008 amounting to K214,482. In the absence of appropriate detailed asset register and other records, I was unable to verify the completeness, existence, accuracy and valuation of fixed assets at the year end.
- There was limitation of scope on the payment of accounts due to: no proper segregation of duties maintained, non adherence to proper procurement and payment procedures and a number of payments out of the Trust Account that were not in accordance with the Trust Instrument.
- There were no effective controls over payments, recordings and acquittals relating to all cash and travel advances during the 2008 and prior years. No advance register has been maintained. Therefore, there was 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.

#### Salaries, Wages and Allowances

This is an area we repeatedly reported in the past reports as being prone to invalid payments. Despite the specific examples of fraud occurring in payroll and reported to the Hospital, the management of the Hospital had not taken any action to address them.

A sample of 25 employee personnel files was selected and perusal of the files revealed the following;

- In sixteen (16) instances, the Salary History Cards were not updated. As a result, the AGO was unable to agree the fortnightly pay to their respective salary cards. Leave records were also not updated in five (5) instances when officers took up their recreational leaves.
- Salaries and wages tax declarations lodged by the employees were not sighted on file in thirteen (13) instances. As a result, audit was unable to agree the tax deductions made for those employees.
- Current signed employment contract agreements were not sighted on file for eight (8) selected employees i.e. the Medical Officers, CEO and the Directors. As a result, the AGO was unable to verify that the salaries and allowances paid to them are as per the terms and conditions specified in the agreement.
- Perusal of selected 2008 payroll revealed that all staff under Finance and Administration Division were receiving 25% shift allowance of their base salaries fortnightly without any approval from DPM or SCMC. The shift allowances according to the Industrial Awards should be paid to Medical and Clinical Staff only and not Administrative Staff.
- A ghost employee (named) who is not employed by Modilon General Hospital continues to be on the Payroll. This was highlighted in our two previous reports without any action taken by the management.
- In our previous report, we highlighted an irregular payment to a staff member totaling K153,999 made on pay number 2 of 2007 being for missed salaries. The Department of Health's Internal Audit also verified this findings in its special audit on payroll done in 2008 and recommended the management to immediately commence salary deductions to recoup the over payment. However, at the time of audit, the management has not yet taken any action.
- On Pay Number 1 of 2008, the Director -Finance and Administration was paid a total of K35,599 being for back pay upon promotion. I was unable to verify the accuracy and validity of this payment.
- Casual wages payments were made in cash and the total payroll in a fortnight was noted to be between K10,000 and K20,000. It was observed during audit that there was no adequate security over preparation and distribution of casual wages.

### **5.9.3 Madang Urban Local-level Government**

The audit of Madang Urban Local-level Government for the year 2008 accounts was completed with a disclaimer of audit opinion issued. The general observation was that there were no adequate controls over payment processes, assets, and approvals, segregation of duties and reconciliations, with the risk of

misappropriation assessed as very high. Also, the financial statements contained various errors and inaccuracies and were assessed as unreliable.

Finance Instructions 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 Madang Urban Local-level Government did not contain the District Administrator's Statement for the year ended 31 December 2008 and were not signed by the District Administrator.

This statement is a written representation by the management in which the management acknowledges in 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 constituted a scope limitation and affected every statement of the financial statements.

Other controls issues identified during the audit were:

- The Trust Instrument governing the operation of the Trust Fund was not provided for audit review when requested.
- Debtors' ledgers for property tenants, garbage and sanitation, land rates etc, was not maintained by the Finance Section. As a result, I was unable to determine the value of debtors at year end.
- Reconciling items relating to revenue and expenditure from prior years appearing in the December bank reconciliation statement were not posted or adjusted to the respective revenue and expenditure ledgers.
- An updated Asset Register was not maintained to record assets owned by the Madang Urban Local-level Government. Assets totaling K100,427 were not recorded in the Assets Register and the values of assets purchased from prior years were not disclosed for audit verification. In the absence of a complete Asset Register and annual stocktakes, I was unable to confirm the existence and completeness of assets owned by Madang Urban Local-level Government.
- Contractors and consultants were noted to have been engaged, however, there was no indication of proper procurement procedures being followed. A tender committee did not appear to have been called for proper evaluation and selection. Individuals and individual companies were noted to have been engaged on an ad hoc basis without duly signed contracts in place.
- It was noted in all payment vouchers sighted, that alterations made to the monetary values and the expenditure vote items on the requisitions were not initialed and approved by the concerned officers. Copies of paid cheques were not attached to the payment vouchers, thus making it difficult for audit to identify and compare the signatories to the bank account with the specimen signatures.



## 5.10 MANUS PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Manus Provincial Government	2008	2008	April 2010 Disclaimer	Significant audit issues identified
Lorengau Hospital Board	2004	2004	No recent FS prepared	No financial statements were prepared for 2008 however, audit of controls completed for 2008
Aua/Wuwulu	2008	No		
Balopa	2008	No		
Bisakani Soparibeu	2008	No		
Lelemadih/Bupi Chupeu	2008	No		
Lorengau Urban	2008	2008	March 2010 Disclaimer	Significant audit issues identified
Los Negros	2008	No		
Nigoherm	2008	No		
Penabu/Nali Sopat	2008	No		
Pobuma	2008	No		
Pomotu Ndrehet/Kurti Andra	2008	No		
Rapatona	2008	No		
Tetidu	2008	No		
Manus Fishing Corporation			No recent FS prepared	Entity status/audit to be determined
Manus Shipping Authority			No recent FS prepared	Entity/audit to be determined
Manus Marine Resources				Entity deregistered on 3 June 2002
Kei Beseu Kampani Ltd			No recent FS prepared	2000 – 2006 audit under private; audits to be determined; 2007 – 2009 financial statements outstanding
Lorengau Harborside Hotel				Coy regist expired , 23 April 2001.

### 5.10.1 Manus Provincial Government

#### Financial Statements

The audit of Manus Provincial Government's financial statements for the year ended 31 December 2008 was unsatisfactory with a disclaimed audit opinion being issued. The financial statements were misleading as a result of error in the presentation of the statements. Namely, amounts in statement 'F' were incorrectly presented in amounts of 'thousands' instead of the original amounts.

Also, the Notes to the accounts did not disclose the opening and closing balances of the accounts that relate to and form part of the financial statements.

#### Investments

Provincial Government held face value investments of K198,970 in four (4) companies namely: Bougainville Copper Limited, Lorengau Hotel Limited, Kei Beseu Kampani and Manus Marine Resources. The cost of these investments totaled K71,258 as at 31 December 2008. The percentage of shareholding held by the Provincial Government, date of acquisition of these investments and dividends (if any) received in respect of the investments held were not disclosed.

Also, other records of the Provincial Government indicated that the Provincial Government had invested funds in its business arms namely: Manus Provincial Shipping Authority and Manus Fishing Corporation and in 1999, it paid a sum of K50,000 as its initial share contribution towards the establishment of the National Gas Corporation. Except for Lorengau Hotel and Kei Beseu Kampani, the share certificates, financial statements and relevant documentations maintained to confirm the existence and value of investments held by the Provincial Government in the other companies were not made available for examination.

#### Assets

The Assets Register maintained by the Properties Section was not updated on a current basis and lacked comprehensive and complete information on all the assets that are owned and were in the custody of the Provincial Government. In addition, there was no evidence to indicate that periodic stock-takes were undertaken in order to ascertain the existence, conditions and value of assets that are owned and were in the custody of the Provincial Government as at the year end. A review of the expenditure records revealed the Provincial Government purchased assets worth K255,824 during the year under review which includes motor vehicles, office equipments, furniture, white goods and other attractive items such as mobile phones and digital cameras that have not been recorded in the Assets Register.

#### Purchasing and Payments

Manus Provincial Supply and Tenders Board did not maintain proper records of meeting minutes as well as a tender register containing relevant details of tenders invited, quotations received and contracts awarded to successful bidders during the year under review. Also, the Instrument establishing the Manus Provincial Supply and Tenders Board was not made available for my review.

Issues in relation to payments were as follows:

- The Instruments of appointments of the Authorized Requisitioning Officers, Financial Delegates, Section 32 Officers and their respective financial limits to authorize expenditure were not made available for my review.
- Payments totaling K152,947 were made in relation to consultancy services rendered to the Provincial Government. The Consultancy Agreements relating to the engagement of the consultants were not made available for my review.
- Payment vouchers relating to payments totalling K247,224 were missing from files and as such, the Auditor General's Office could not ascertain the validity of the claims presented for payment.
- Payments totaling K99,195 were not certified to determine the legitimacy of claims prior to processing of payments.
- The recipients of lump sum payments of grants and subsidies totaling K664,355 included Local-level Governments, Schools, Public Authorities and Non - Profit Organizations and individuals. These entities except the local level Governments did not furnish accountability reports to the Provincial Government as evidence of the receipt of the grants.
- The certificates of completion are required to be duly certified by a competent technical staff of the Provincial Government upon satisfactory completion of maintenance works. However, no such certifications existed for the payments for various minor maintenance works totaling K59,853 made to private contractors and individuals.

#### Cash Management

Bank reconciliations although performed, were not done with sufficient care to ensure timely identification and clearance of significant unreconciled variances in the ledgers and cashbook.

Further, the Lorengau Market Trust Account was operated by the Provincial Government without a formal trust instrument and an approved bank account. Formal handover/takeover notes were not prepared in relation to the transfer of the Lorengau Market Trust Account. Also, the Trust Account was not reconciled during the year under review.

#### Corporate Governance

Manus Provincial Government Corporate Plan for the period 2007 to 2009 was due to expire at the end of 2009. There was no evidence to indicate the Provincial Government had undertaken periodic reviews to determine whether or not it has achieved its goals and objectives as set out in the Corporate Plan.

The Internal Audit Unit did not provide its Annual Audit Plan and copies of audit reports issued in respect of audits undertaken during the year under review. In addition, there was no Audit Charter which sets out the mandate and scope of

audit coverage and activities to be undertaken by the Internal Audit Unit. Further, the Provincial Government did not have an Independent Audit Committee to oversee the activities of the Internal Audit Unit.

### 5.10.2 Lorengau Hospital Board

#### Preparation of the Financial Statements

As at the date of preparation of this report in September 2010, the Lorengau Hospital Board had not prepared its financial statements for year ended 31 December, 2008. The Hospital Board is required to prepare and submit its financial statements to the Auditor-General and the Minister prior to 30 June in the following year.

The non-preparation and submission of 2008 financial statements in a timely manner resulted in breaches of Section 63(2) and Section 63(4) of the *Public Finances (Management) Act 1995*. In addition, there was no reporting done to the interested parties and stakeholders.

However, the 2008 audit of the accounts and records as well as full review of the control environment was completed and the control weaknesses identified are detailed in the paragraphs below.

#### Budgetary Control

The AGO examined the controls to ensure that expenditure, including unpaid commitments do not exceed budgetary allocations during the fiscal year. The examination revealed the following weaknesses:

- Commitments and payments on a particular vote exceeded the Cash Fund Certificate (CFC) authorization. For example, the Appropriation funds made available by the Department of Health by way of CFC were over committed under seven expenditure vote items totaling K596,664 during the fiscal year.
- Annual estimates of revenue and expenditure have not been furnished to the Department of Treasury & Corporate Affairs. The Chief accounting Officer is required to furnish the Annual Estimates of revenue and expenditure in June the following year. Non compliance of this requirement has resulted in the breach of Section 3(c) of the Revised Hospital Fees trust Instrument.

#### Revenue Management

Number of control weaknesses were identified which included the following:

- There was a serious lack of proper safe custody of cash where cash was locked in the ordinary drawers or cabinet.
- Hospital fees and user fees have not been reviewed in line with the rising costs of drug shipment and other related costs for a long time.

- Patients and revenue registers were not reconciled to ensure all moneys have been collected.
- Patients were advised to pay admission fees only after being discharged resulting in instances of non payment of fees.

Due to the controls weaknesses identified above, the AGO could not ascertain whether all revenue was collected and brought to account.

#### Accountable Officer

Every officer who authorizes the collection of public moneys is an Accountable Officer under Section 6 of the *Public Finance Management Act*. However, duties of Accountable Officers in relation to Revenue have not been defined, in particular, who was the Collector of Public Monies, who was the Receiver of Public Monies, and what were their duties. In the absence of adequate staffing and segregation of duties the following control deficiencies were noted:

- Duties and time schedule of the Cash Officers was insufficient to cover a full 24 hour rotation shift work. The scheduled work time was only from 7 am to 10 pm. Any fees from disaster and emergency patients after 10 pm were never accounted for.
- There was inadequate staffing for revenue section to accommodate the 24 hour shift. Also, the duties of the officers responsible for revenue collection, monitoring, review and reporting were not properly defined.
- There was no compliance to procedures pertaining to compiling of Collector statements. Hospital and User Fees data were in some instances posted to incorrect revenue heads. As such, Hospital Fees were incorrectly coded under Other Income and Administration.

#### Cash Management

The following concerns regarding maintenance of cash book and bank reconciliations were raised and reported to the Hospital Board's management:

- In the absence of the Attaché reports, cash books were not maintained. Consistency and completeness were lacking as well as monthly reconciliation. The day-to-day accounts balances could not be provided.
- Closing balances for both bank accounts for 2008 financial year could not be ascertained. No proper cash book was available to verify the balances.
- Reconciliation statements were not compiled for 2008.
- The balance of the Appeal Account, which was opened purposely to hold monies from charitable appeal funds for emergencies could not be ascertain. The account was dormant with a credit amount of K10,835 as at 31 December 2005 and was reactivated and closed on 21 April 2006 and invested in an Interest Bearing Deposit (IBD). However, no books of accounts or records were maintained or made available.

#### Purchasing and Payment Process

My Office identified by-passing procurement and payment procedures such as:

- Expenditures not supported by proper vouchers, documentation or evidence of performance of service.
- Competitive quotations were not obtained for supply of goods & services.
- Commitment control procedures were lacking in the accounting areas including delegated responsibility for requisitioning officer to raise expenditure requisitions; Certifying Officers for supervision of the claims examination system and to certify that the claims rendered are correct and can be paid; and non-appointment of Authorizing Officers.

#### Assets Management

The AGO has observed serious lack of basic controls over assets at the Lorengau General Hospital:

- The Hospital has an extensive portfolio of fixed assets that has not been effectively managed nor appropriately safeguarded against theft, fire or vandalism through appointment of custodians. In addition, there was no insurance coverage or physical stock-take undertaken during the period under review.
- Assets Register was not maintained to record purchases during the year valued at K155,902. Other properties owned by the Hospital also remained unrecorded.
- Stock Cards on drugs and other medical supplies, and store items such as detergents, chemicals, tools, etc, were not maintained to monitor their usage and movement.

#### Advances Management

Cash Advances totaling K13,120 granted to staff were unacquitted nor the recovery actions taken.

#### Salaries and Wages

The AGO has identified number of discrepancies in relation to the salaries & wages:

- The tax component of Board stipends and other taxable allowances totaling K693,720 were not calculated and remitted to IRC. This is in breach of the *Income Tax Act*.
- The CEO was provided with a 24 hour motor vehicle with fuel, however, he was also paid annual motor vehicle allowances.

- Lengthy delays in processing of batches input in to the pay roll system has resulted in continuous payment of salary advances to officers waiting to be put back on the pay roll.
- Batches received for input in to the Concept Payroll System not verified to avoid double or overpayments.
- Wages & overtimes not duly approved or authorized, nor calculations independently verified prior to payments.
- Staff personal files were not properly maintained.

#### Minutes of Board Meetings

The Hospital Board had only one meeting during the year due to the unification of the rural Health Centres and the General Hospital. The copy of the meeting minutes however, was not available for audit review. In the absence of the Board minutes, the AGO was not able to ascertain the resolutions passed. There is a risk that important decisions may be nullified or may not hold legal basis in the event of Court challenge.

#### Corporate Plan

There was no Corporate Plan and operational plans to outline the Hospital's objectives and strategies. In the absence of the associated operational plans, the Hospital may not be able to meet the needs of its stakeholders.

### **5.10.3 Lorengau Urban Local-level Government**

The audit of Lorengau Urban Local-level Government's financial statements for the year ended 31 December, 2008 was unsatisfactory with a disclaimed audit opinion being issued. The paragraphs below detail issues identified with the audit of their financial statements:

- Revenue collections were not banked daily and also, the collections were locked away in the Town Manager's Office for safe custody instead of being kept in a secure safe.
- The examination of the bank reconciliations for Lorengau Urban Local-level Government revealed that the bank reconciliations were done correctly. However, the control mechanism of independent checks and verification by senior officers were not adhered to. Further, stale cheques and other unadjusted reconciling items were not promptly cleared and posted.
- Claims for overtime were processed and paid without evidence of approval granted by a competent authority for employees to work after the normal hours of duty.
- The report of Unacquitted Advances disclosed eighteen (18) instances of travel and cash advances totaling K12,652 which were granted to officers as far back as 2001, and that have not been acquitted as at 31 December, 2008.

- An amount of K457,708 was awarded by the Court as a settlement by the Manus Provincial Government to Lorengau Urban Local-level Government as per National Court Order dated 17 September, 2004. During the year under review, a total of K238,400 was received from Manus Provincial Government. Due to lack of Debtors Register and other relevant records, the AGO could not determine total outstanding debts from the court award and other internal revenue sources as at 31 December, 2008.

#### 5.10.4 Manus Fishing Corporation Ltd

The Corporation was established by the *Manus Fishing Corporation Act, 2003* with the objects and functions as stipulated under the relevant sections of the Act. 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, certificate of incorporation are not available for audit review. At the time of preparing this report in September, 2010 no financial statements have been submitted for audit.

#### 5.10.5 Manus Shipping Authority

The Authority was established by the *Manus Provincial Shipping Authority Act, 1994*. 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. Profit from the operation is shared between the Provincial Government and the operator net of running costs. At the time of preparing this report in September, 2010 no financial statements have been submitted for audit.

#### 5.10.6 Kei Beseu Kampani Ltd

Documentation obtained indicated that the Manus Provincial Government holds 522 shares and is a single majority shareholder at 34%, whilst the remaining shareholders are various land owner groups. Audit of the accounts and records have been reportedly done by a private accounting firm – Darkom Accountants up until the 2006 year. Copy of relevant documentation such as company's Act, share certificate and audited accounts and reports are not available for audit review. At the time of preparing this report in September, 2010 no financial statements have been submitted for audit.

#### 5.10.7 Lorengau Harborside Hotel Ltd

This Hotel according to records was incorporated in October 1974 with the Manus Provincial Government share of 50% to 80% with the remaining balance shared between the Kei Beseu Kampani Ltd and the Local-level Governments. However, due to lack of any documentation, the actual percentage ownership could not be ascertained. The audit of their financial statements for the year ended 31 December, 2006 was done by a private accounting firm - Darkom Accountants through private arrangements. Copy of relevant documentation such as company's Act, share certificate and audited accounts and reports are not available for audit review. At the time of preparing this report in September, 2010 no financial statements have been submitted for audit.



## 5.11 MILNE BAY PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Milne Bay Provincial Government	2009	2008	Disclaimer issued December 2009	2009 audit in progress
Alotau Hospital Board	2008	2008	November 2009 Qualified	Improvements noted
Alotau Urban	2009	2008	Disclaimer issued December 2009	Significant control weaknesses identified
Bwanabwana	2008	No		
Daga	2009	No		
Dobu	2009	No		
Duau	2008	No		
Goodenough	2008	No		
Huhu	2009	No		
Kiriwina Rural	2009	No		
Louisiade	2009	No		
Makamaka	2009	No		
Maramatana	2009	No		
Murua	2008	No		
Suau	2009	No		
Weraura	2009	No		
West Ferguson	2008	No		
Yeleyamba	2009	No		
Milne Bay Properties				1995 – 2009 financial statement outstanding

### 5.11.1 Milne Bay Provincial Government

For the last five years I have issued disclaimer of audit opinion due to problems encountered with the accuracy of the financial statements and due to significant control weaknesses identified.

The financial statements for the years 2006 to 2008 have been prepared and submitted to the Auditor-General's Office. However, the records relating to receipts and payments, payment vouchers, registers and supporting documents were destroyed by fire when one of the Provincial Administration buildings where the Provincial Treasury Office occupied was burnt in September 2008. A disclaimer of audit opinions has been prepared for those respective years.

The 2009 financial statements were submitted to my office and the audit was in progress at the time of preparing this report in September 2010.

#### 5.11.2 Alotau Hospital Board

The Alotau General Hospital submitted their 2008 financial statements in July 2009. The audit was completed, with management letters and opinion reports issued in November 2009. The 2008 account was completed with qualified audit opinion issued. The findings regarding the financial statements and the control environment are detailed in the paragraphs below. The Hospital has been gradually improving its financial management practices.

##### Revenue

Revenue ledgers were not provided for my scrutiny and verification against receipts and vouchers as staff at the accounts section do not have the necessary skills and know-how to extract the ledgers from the Attaché accounting program.

In light of deficiencies pointed out in cash count, my office could not place reliance on revenues disclosed in the financial statement as reliable. The following deficiencies were noted: cash short falls at revenue office on a daily basis, no independent verification or random checking was done for cash collections, delays in banking for up to five days were noted and no segregation of duties.

##### Cash Books and Bank Reconciliations

There were five bank accounts operated, the three (3) trust accounts have not legitimately obtained trust instrument warranting their opening and operations. Therefore the following trust accounts are being operated illegally. This was pointed out in the 2007 audit report and management agreed to rectify that issue, but to-date had not done so. The accounts in question are: Alotau General Hospital Fundraising account, Alotau General Hospital Children Ward account and Alotau General Hospital Board of Management account.

##### Payment of Accounts

A review of the procurement and payment procedures revealed instances of irregularities and non compliance with the *Public Finances (Management) Act 1995*.

In twenty one (21) instances payments totaling K146,479 being for payment of various goods and services lacked documentation such as: three (3) verbal & written quotations, invoices attached to validate payments and no delivery notes/consignment note sighted to confirm delivery of goods received.

Most payments for rentals had no valid lease agreements signed or renewal sighted before payments made. Default interest had been inappropriately entertained and paid thus impacted on the budgetary allocation.

A payment of K10,000 being for lease termination lacked the following valid documentations: the lease agreement had not been signed nor renewal made and no copy of the termination clause which legally binds and allows for such payment.

It was noted that eleven (11) lease agreements had expired and were not renewed but monthly rentals were continuously paid.

#### Assets Management

The Hospital had come up with a comprehensive assets listing in 2004 with all asset items recorded and values stated. However, the following issues have been noted.

- Since 2004, assets register had not been updated in a timely manner.
- Assets totaling K2,074,119 was the value as at 31 December 2004 which was incorrectly disclosed in the 2008 financial statement.
- Land titles for the Hospital's location had not been obtained except for Section 14 Lot 1. A total of eleven (11) titles must be pursued to obtain ownership of the respective land allotments.
- The assets purchased in 2008 totaling K112,654 had not been recorded into the assets register.

#### Salaries and Wages

The AGO review of payrolls, personnel files, paid vouchers and other related records revealed these concerns:

- The Human Resources section was not organized properly and records were not maintained systematically. All appraisal forms were not filed to support salary increments; permanent variation forms were not filed to verify against higher duty and other allowances, temporary variation advices for salary adjustments with back pay were not maintained on file and staff movement advice were neither filed nor prepared.
- An expatriate Dental Officer, attached to the Dental section had no contract of employment, was on and off the payroll. I could not ascertain the nature of this employment due to lack of proper employment documents.
- In ten (10) instances payments of gratuity totaling K44,947 were made without employment contract signed thus the payment of gratuities were improper. Tax calculations were also incorrect.

### 5.11.2 Alotau Urban Local-level Government

The Alotau Urban Local-level Government submitted its 2008 financial statements in July 2009. The audit was completed with a disclaimer of audit opinion issued. The general observation was that there were no adequate controls over payment processes, assets, and approvals, segregation of duties and reconciliations, with the risk of misappropriation assessed as very high. Also, the financial statements contained various errors and inaccuracies and were assessed as unreliable.

#### Cash Book and Bank Reconciliations

The cash book was not appropriately maintained and entries were not recorded in a timely manner resulting in monthly cash book balances being incorrect.

- Bank fees and charges totaling K17,668 for the period 1999 to December 2007 which should have been cleared in the cash book were still being taken up as 'Debits in Bank Statement not in Cash book.
- Unpresented cheques totaling K24,551 relate to year 2004 and prior years were not adjusted and cleared in the cash book.
- Bank balances were overdrawn for three months in June, July and September.
- Adjusting entries were not posted on a timely basis to adjust the cash book balance.
- Source documents and records were not properly maintained to prepare cash books and bank reconciliation statements.

#### Revenue

There was no segregation of duties in the collection of cash, recording and banking. As a result, revenue collections could not be independently verified and relied. A random sampling of the collector's statements selected for testing and verification revealed the following weaknesses:

- Delays in banking were noted from one to two days.
- All collector statements were not sequentially numbered.
- Collections receipted were not checked prior to banking.
- Cash collections totaling K1,218 were used prior to being receipted and accounted,
- Total collections of K25,813 could not be verified to the collectors statements as the official receipt book could not be located.

### Payment of Accounts

A review of the procurement and payment procedures revealed instances of irregularities and non compliance with the *Public Finances (Management) Act 1995*.

- Sixty four payment vouchers totaling K85,559 were not made available for audit inspection.
- Fifty two percent (52%) of the payments totaling K115,272 for goods and services had not been duly approved by the financial delegates including the Section 32 officer prior to effecting the payments, thus funds could have been improperly, illegally and fraudulently paid.
- In eighty six instances payment vouchers totaling K141,105 were either not examined or certified by the Examining and Certifying Officers prior to payments being processed,
- Payments totaling K14,922 were made out of incorrect vote items.
- Altered amounts totaling K18,208 was not initialed or counter-signed by the responsible financial delegates.
- Twenty wages and overtime payment sheets totaling K27,879 lacked records such as recipients signature and date paid to ensure payments were duly made to the intended recipients.
- Overtime payments totaling K1,604 were without approval.

### Asset Management

An assets register including stock cards was maintained but were not updated on regular basis. Assets totaling K77,485 purchased during 2008 could not be verified to the register.

### Advance Management

An advance register was not maintained for recording of cash and travel advances.

## 5.12 MOROBE PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Morobe Provincial Government	2008	2008	June 2010, Disclaimer	Some improvements noted
Angau Hospital Board	2008	2008	December 2009, Disclaimer	Significant control weaknesses identified
Ahi	2008	No		
Aseki	2004	No		
Burum Kuat	2009	No		
Buang	2007	No		
Deyamos	2008	No		
Finschhafen Urban	2009	No		Audits to be dispensed
Hube	2009	No		
Kabum Kapao	2008	No		
Kome	2008	No		
Komba	2009	No		
Kotte	2009	No		
Labuta	2004	No		
Lae Urban	2008	2008	June 2010 Disclaimers	Significant control weaknesses identified
Leron / Wantoat	2007	No		
Morobe	2007	No		
Mumeng	2007	No		
Nabak	2004	No		
Namima Kariba	2008	No		
Onga/Waffa	2007	No		
Salamaua	2007	No		
Seko	2004	No		
Selepet	2008	No		
Sialum	2009	No		
Siassi	2009	No		
Umi Atzera	2007	No		
Wain/ Erap	2004	No		

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Wampar	2007	No		
Wapi	2008	No		
Waria	2007	No		
Wasu	2009	No		
Watut	2007	No		
Wau	2007	No		
Wau/ Bulolo Urban	2007	No		Audits to be dispensed
Yabim Mape	2009	No		
Yus	2009	No		
Kumgie Holdings	2006			1999 – 2006 audit fees awaited; 2007 – 2009 financial statements not submitted
Niugini Produce Marketing	1999			1999 audit fees awaited; 2002 company in liquidation; no recent financial statements
Morobe Farms	1999			1999 audit fees awaited; 2000 – 2009 financial statements not submitted
Yalu Plantation	1999			1999 audit fees awaited; 2000 – 2009 financial statements not submitted
YKDC Ltd				1999 – 2009; no recent financial statements; entity status/audits to be determined
Morobe Food Corp				Company deregistered 3 June 2002
Morobe Dev. Corp	1999			1999 – 2009; no recent financial statements; entity status/audits to be determined
Morobe Food Processing				Company deregistered 3 June 2002
Morobe Devlpm. Eng. Serv Ltd	1999			No recent financial statements; entity

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
				status
Umboi Timber Invest.Ltd				1999 – 2009; no recent financial statements;

#### 5.12.1 Morobe Provincial Government

The audit of the 2008 financial statements was completed and the management letter was issued but no response was received from the Provincial Administration. A disclaimer audit opinion was issued in June 2010. The control weaknesses identified in 2008 are detailed in the paragraphs below. It is important to note that certain improvements have taken place in 2008 control environment, in particular, assets management and bank reconciliations.

##### Budgetary Control

The Expenditure Ledgers show a total of K113,042,768 being spent out of the total appropriation of K124,975,600 with the total expenditure incurred within the amount authorized as per the Warrant Authorities and Cash Fund Certificates. However, the AGO noted that internal controls were weak and related records were not provided for audit, although requested.

##### Revenue

Proper data base was not installed and used for liquor licensing to maintain up to date information pertaining to number of outlets, their fees and fines, and reports on inspections and outstanding matters. On the other hand, logistics has hindered their capacity to move and do inspection and collections in remote areas and settlements.

Proper information or dialogue was lacking between the Provincial Government and the Internal Revenue Commission pertaining the Goods and Services Tax. The Provincial Government appears to be the recipient of the 40% tax but without proper information and knowledge of taxes collected by the Internal Revenue Commission.

Collectors Statements were not signed by the Checking Officer and the collector of Public Monies. Delay in banking has been observed in several occasions ranging to a maximum of nine (9) days.

##### Cash Book and Bank Reconciliations

The cash book for the Provincial Government Operating Account revealed favourable closing balance of K149,725 as at 31 December 2008 while the Provincial Treasury Operating Account revealed an overdrawn cash book balance of K265,005 as at 31 December 2008. The overdrawing of cash book indicates poor cash management practices.



I have noted a significant progress in reconciling accounts on a monthly basis. Both the Provincial Government Operating Account and the Provincial Treasury Operating Account were reconciled up to the end of December 2008. A significant progress was also noted in the clearing of all outstanding reconciling items from previous years.

#### Paid Accounts

Payments of Financial Assistance for small projects such as Poultry and Piggery were made directly to the person requesting the financial assistance and not to the supplier.

It was observed that there has been non-compliance with the procurement procedures. Most common were; not obtaining three (3) written quotations, expenditure charged to incorrect votes, payments incurred from cash advances and financial assistance paid out of expenditure vote items without prior consultation to relevant rules and regulations.

Telephone bills have also increased indicating more private calls than official calls. It was noted as per selected telephone bills testing that ninety percent(90%) of the calls in November and December were made to Digicel mobile network rather than the telecom PNG land line which is used in all Public and Commercial entities.

#### Capital Works and Maintenance

Contractors failed to complete the works, goods and services to the required standard under the contract in a professional manner and with due care. There was no early notice of expected variations to contracts.

Good Contract Administration was also lacking as specific contract administration issues were not evident. They include maintenance of an updated copy of the contract agreements, appropriately filed and documented records of meetings and decisions, trading documents (bills of lading and invoices), insurance details, design information, quality control records, measurement and payment records and conditions and events affecting the contract.

#### Assets Management

It has been noted with appreciation that an improvement has been made in establishing and updating the Assets Registers in a data base maintained by the Provincial Finance Office. It has come to light that the registers were maintained in Divisions while a central register was maintained by the Administration.

However, certain aspect of the data base was not maintained to cater for all of the assets held and maintained:

- Internal Policy to administer the control, maintenance, disposal, and management of all assets was not formulated.
- Certain Districts who participated in the data base/Asset workshop have not established their data base.

- Provincial Government properties classified as Capital Assets in the likes of land and building were not shown. Over the previous years, these assets have not been accounted for. According to the Administration, there is no record of the exact number of land parcels registered under the Provincial Government.
- Periodic (annual) stock take of Provincial Government Assets was not done during the year and previous years.

#### Advance Management

There was no effective control in place over the payment and acquittal of advances resulting in significant amount of un-acquitted advances totalling K1,025,116 as at 31 December 2008. Travel advances received for duty travel and acquitted were not supported by Boarding Passes and Ticket Butts as evidence that the Officer had travelled in that particular period.

#### Corporate Governance

The Provincial Corporate Plan for the 2008 to 2012 was only approved in November 2008. An eleven (11) month delay has left the 2008 financial year without a supplementary Plan to work with.

#### Internal Audit

The Internal Audit Unit of the Provincial Government consists of five (5) Internal Auditors. The routine areas of operation of the Provincial Government such as revenue generation, human resource, assets management and procurement and expenditure on capital works and maintenance amongst the major functions of the Provincial Government funding have not been subject to any appraisal by the Internal Audit Unit. The Chief Internal Auditor had been informed by this Office of the areas that needed thorough review.

### **5.12.2 Angau Hospital Board**

The Hospital Board has submitted the 2008 financial statements in February 2009. Field audit was completed and management letters was issued. No response was received from the Hospital's management. Disclaimer of audit opinion was issued in December 2009.

The audit of the accounts of Angau Memorial General Hospital was directed primarily to the evaluation of internal control systems, to examine the performance of financial operations with a view to assess the reliability and integrity of the financial statements and the extend of compliance with laws, regulation and directives. The issues identified from testing the 2008 accounts and the control environment are detailed in the paragraphs below.

#### Budgetary Controls

Budget proposals and estimates were done only for the National Government Grants that were being received and expended through the Operating Account. The Trust Account revenue and expenditures which are being governed by the

Trust Instrument are not being properly budgeted for. Although, it is prescribed in the Instrument, the type of expenditure to be incurred out of the Trust Account, no proper budget estimates were being made against each of the expenditure items for control of revenue fund.

Cash Fund Certificates issued were in excess of the total appropriation amounting to K306,200.

#### Revenue and Cash Management

According to the financial statements, National Government Grants received from the Department of Health including salaries and allowances paid directly by the Department during the year was K17,039,826. However, the details of receipts for salaries and allowances for pay period ending 31 December 2008 were not posted to the revenue ledger.

A total of K49,750 which should have been deposited into the Operating Account was incorrectly deposited into the Trust Account. The fund was not being transferred to the Operating Account and was shown as other income in the Trust Account Receipt and Payment Statements.

A proper debtors listing showing all the debtors of the Hospital was not made available for audit to establish the total debts outstanding as at the year end. However, examination of available records relating to debtors revealed the following observations;

- Debtors Ledgers were maintained for patients with outstanding hospital fees. However, it is noted that these ledgers were incomplete as it did not record the full details of the outstanding debtors, such as the full address of the debtors, how much each debtor owed, dates and etc, as such, it was impossible to adequately follow up and collect the debts. Outstanding debts from patients amount to K10, 778 as at 31 December, 2008.
- According to the 2007 Audit Report, outstanding hospital fees from patients totaled K76,020 dating back to 2004. No action was taken to recover these debts as informed by the Debtors Clerk.
- The Dental services have been moved to town and the services were provided by Hospital dentists. Receipts collected from the dental services were never remitted.

#### Payments of Accounts

Examination of the cash book, ledgers, payment vouchers and other related records with regards to the payment of accounts revealed the following:

- Most of the payment vouchers selected for audit review for both Accounts were not found in the payment files. Among the missing vouchers was a cheque payment made to Datec for a total of K97,345 being for purchase of computer hardware which audit was unable to verify.

- Three (3) quotations were not obtained to determine the most economical price of goods and services as required by Public Finances Management Manual in certain instances. Most expenditure was below required written quotes but within the required verbal quotes. No Quotations Register was maintained to verify that required quotes were obtained for goods and services.
- Payments were made directly to the individuals and not to the Suppliers for travel airfares, accommodation and vehicle hire.
- Instances were also noted where payments were effected without proper supporting documents such as valid invoices and goods received notes etc, being attached to validate the genuineness of payments. Selected instances of such payments totalled K10, 683.

#### Assets Management

Examination of the cash book and ledger accounts revealed that various assets had been purchased during the year under review.

Some of the assets purchased during the year include two (2) new vehicles and other Office and Household Furniture totaling K527,018. However, assets register showing details of all assets owned by the Hospital was not furnished for verification and therefore it was not possible to verify whether assets purchased during the year were properly recorded and whether there were any physical controls exercised. Regular periodical stock takes were also not carried out.

A sample of thirty two (32) payment vouchers representing 95% of total payments for capital expenditure were selected for audit review. Audit noted that 81% of the total vouchers selected were not provided although, requested.

#### **5.12.3 Lae Urban Local-level Government**

The Lae Urban Local-level Government (ULLG) submitted the 2008 financial statements in January 2010. Field audit was completed and management letter was issued. No response was received from the hospital's management. Disclaimer of audit opinion was issued in June 2010. The issues identified from testing the 2008 accounts and the control environment are detailed in the paragraphs below.

#### Revenue

Examination of revenue collection and banking revealed the following matters:

- The duties of the officers' responsible for revenue collection, monitoring, review and reporting were not properly defined.
- There were no records of names of officers who were duly appointed as Collectors of Public Monies. Hence, audit was not able to ensure that monies from all sources were collected by authorized collectors only.

- Control for check and balance was not initiated. Summary of cash receipts compiled by the banking clerk were not checked by the certifying officer.
- There were delays in bringing in cash takings particularly from health centres located in remote areas and the market in the city over the week-ends.

The possibility of abuse and misuse of public money was very high given the poor state of record maintenance system.

#### Debtors

No debtor's ledger or a register containing records of outstanding fees, fines and taxes was available to verify outstanding debts from the current and the previous years. There was substantial amount of uncollected receipts that still remained outstanding with no recovery action instituted.

According to the Statement of Debtors no debts were reported for the 2007 and 2008 financial years. The outstanding debt as at 31 December 2006 was reported as K8,506,725.

The risk of loss of revenue and reporting of incorrect debtors balances as a result of non collection of amounts is very high.

#### Cash Book and Bank Balances

There was no reconciled cash book balances for all bank accounts held by the Lae City Authority. According to the Financial Controller, the hard copies of the cash books were not produced. Apparently, the software containing the accounting files and records was misplaced when a computer was taken home. As such, the correctness of the closing Cash book balances disclosed per respective reconciliation statements could not be ascertained.

#### Paid Accounts

Review of the payment procedures revealed that the Lae Urban-local Level Government did not strictly adhere to the *Public Finances (Management) Act 1995*, in procuring goods and services. The following observations were noted:

- No computerized or manual expenditure ledgers were being maintained as all payments made were not committed into the system prior to payments being made.
- The delegation instrument of appointments of Section 32 officers, requisition officers, financial delegates, examining officers, certifying officers, and receiving officers, their specimen signatures and the designated financial limits were not sighted. As a result, the AGO was unable to verify whether all payments incurred during the year were properly authorized and approved by duly appointed officers.
- Quotations were not obtained from three (3) suppliers as required in order to determine the most economical price. Quotations register was also not maintained to record the quotations obtained.

### Assets Management

A complete and updated assets register was not maintained by the Urban Local-level Government during the 2008 financial year. Periodic (annual) stock take of assets and inventories were not done. The accounting software called Impact Encore that was used by the Urban Local-level Government to generate the financial reports also has modules for Assets Register and Inventories. These modules were not used.

Due to non maintenance of a properly updated Register, audit was unable to ascertain the existence, valuation, condition and custody of all assets that were purchased and owned by the Urban LLG. Selected assets totaling K471,871 purchased during the year could not be traced to the Register.

### Advances Management

Lae Urban Local-level Government has not maintained any Advances Register to record the payment and acquittal of all advances given to officers during the year and also previous years. The selected cash and travel advances totaling K12,430 paid during the year could not be traced.

### Corporate Governance

Lae Urban Local-level Government did not provide a Corporate Plan that establishes long term objectives, set priorities and targets and take into account the requirements of its stakeholders.

### 5.13 NEW IRELAND PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
New Ireland Provincial Government	2009	2008	August 2009 Disclaimer	Significant control weaknesses identified
Kavieng Hospital Board	2009			Audit of 2008 & 2009 to commence shortly;
Kavieng Urban	2008			Audit to commence shortly
Konoagil	2006	No		
Lavongai	2008	No		
Murat	2008	No		
Namatanai	2006	No		
Nimamar	2004	No		
Sentral Niu Ailan	2004	No		
Tanir	2004	No		
Tikana	2008	No		
Nimamar RLLG SP Authority	2006			2004 – 2006 financial statements received/fees awaited; 2007 – 2009 financial statements not submitted
Sentral Niu Ailan Dev. Corporation				No statements submitted since 1999; audit to be determined
New Ireland Development Corporation	2004			1997 – 2004 audit fees awaited; 2005 – 2009 financial statements not submitted
Malagan Lodge	2004			1998 – 2004 audit fees awaited; 2005 – 2009 financial statements not submitted
New Ireland Shipping Ltd	2002			1999 – 2002 audit fees awaited; 2003 – 2009 financial statements not submitted
Nimamar Investment Ltd	2004			2002 signed financial statements awaited; 2003 – 2004 audit fees

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
				awaited; 2005 – 2009 financial statements awaited
Nimamar Rural LLGSP (formerly Nimamar Dev.) Authority	2006			2005 – 2006 audit fees awaited; 2007 – 2009 financial statements not submitted.

#### 5.13.1 New Ireland Provincial Government

The audit of New Ireland Provincial Government's financial statements for the year ended 31 December 2008 was unsatisfactory with disclaimed audit opinion being issued. The paragraphs below detail issues identified with the financial statements:

- In twenty-four (24) instances, the Provincial Government incorrectly charged an expenditure totaling K47,738 under incorrect vote item.
- The Provincial Government engaged a Planning Consultant on a consultancy basis and paid him fortnightly salaries totaling K172,928 from August to December, 2008. The payment of fortnightly salaries was improper and is contrary to Clause 5.1 of the Consultancy Agreement.
- The New Ireland Provincial Supply and Tenders Board did not maintain proper records of meeting minutes as well as a tender register containing relevant details of tenders invited, quotations received and contracts awarded to successful bidders during the year under review. Also, the Instrument establishing the New Ireland Provincial Supply and Tenders Board was not made available for my review.
- Payments totaling K415,709 were made to legal and consultancy firms for services rendered to the Provincial Government. The Consultancy Agreements relating to the engagement of the consultants were not made available for my review.
- A payment of K63,370 was made as a refund of personal monies spent on purchase of airline tickets without any evidence of supporting documents such as the travel itinerary or used ticket butts and boarding passes.
- Payments totaling K349,478 were made in relation to the engagement of a security firm for security services rendered to the Provincial Government. However, the contract of engagement as well as evidence of approval granted by the Provincial Supply and Tenders Board for the engagement of the security firm was not made available for examination.



- Payment vouchers relating to payments totaling K713,868 were missing from files hence, I was unable to determine the validity of claims.
- The recipients of lump sum payments of grants and subsidies totaling K15,668,997 included Nimamar Local Level Government, Presidents of various Local Level Governments, Schools and Tertiary Institutions, Public Authorities and Non Profit Organizations. These entities did not furnish accountability reports to the Provincial Government as evidence of the receipt of the grants.
- The valuation rolls supported by an enabling legislation and regulations were not updated to enable the Provincial Government to collect Property tax.
- The Certificates of Completion duly certified by a competent technical staff of the Provincial Government indicating satisfactory completion of capital and maintenance works by private consultants totaling K1,310,716 were not made available for examination.
- The trust instruments, books of accounts and other relevant records maintained in relation to trust accounts operated by the Provincial Government were not made available for examination.
- The Internal Audit Unit was inactive during the year as it did not perform any audit tasks as set out in the annual work program that was prepared for the year under review. In addition, there was no Audit Charter setting out the mandate and scope of audit coverage and activities to be undertaken by the Internal Audit Unit.
- The New Ireland Provincial Government's Corporate Plan for the period 2008 to 2012 was only in draft form and is yet to be finalized, endorsed and adopted by the Provincial Government for Implementation.

#### **5.13.2 Kavieng Hospital Board**

##### Preparation of the Financial Statements

As at the date of preparation of this report in September, 2010 the Kavieng Hospital Board had prepared its financial statements for the year ended 31 December, 2008 and 2009. The audits will commence shortly.

#### **5.13.3 Kavieng Urban Local-level Government**

The Kavieng Urban Local Level Government has submitted the financial statements for 2008 for audit. The audit will commence shortly.

#### **5.13.4 Nimamar Rural LLGSP (formerly Nimamar Development) Authority**

The Authority has submitted the financial statements for 2005 and 2006 for audit, The Authority has however, not provided the audit fees to facilitate the audit of these financial statements. At the time of preparing this report in September, 2010 has not submitted its financial statements for the years 2007 to 2009.

## 5.14 ORO PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Oro Provincial Government	2008	2008	Issued August 2010 Disclaimer	Significant audit issues reported
Popondetta Hospital Board	2008	2008	Issued November 2009 Disclaimer	Significant audit issues reported
Popondetta – Urban	2008	2008	Issued November 2009 Disclaimer	Significant audit issues reported
Afore	2008	No		
Tufi	2008	No		
Safia	2008	No		
Higaturu	2008	No		
Kira	2008	No		
Kokoda	2008	No		
Oro Bay	2008	No		
Tamata	2008	No		
Ambogo Sawmill				No recent financial statements;; status of the entity/audit to be determined
Higaturu Motors				No recent financial statements; status of the entity/audit to be determined
Credit Corporation				No recent financial; status of the entity/audit to be determined
Zamopool				No recent financial statements; status of the entity/audit to be determined
Central Marketing Agency				No recent financial statements; status of the entity/audit to be determined

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Oro Fisheries Authority				No recent financial statements; status of the entity/audit to be determined

#### 5.14.1 Oro Provincial Government

##### General

The audit of Oro Provincial Government's financial statements for the year ended 31 December, 2008 was unsatisfactory with disclaimed audit opinion being issued. The paragraphs below detail the issues identified:

- My office had observed an environment of no accountability where significant amounts of money were redirected to the Provincial Treasury out of the Provincial Government's Appropriations. These findings were reported in my Part III report of 2007.
- The deficiencies identified in the control environment created opportunities for embezzlement of public funds starting from the Provincial Executive Council to staff members and those engaged as consultants. Similar issues have been reported by the AGO for the last four years. No action has been undertaken by the Provincial Government to address any of the concerns reported.

##### Budgetary Controls

The budget review report prepared by the Division of Policy and Planning office of the Oro Administration revealed that there is a failure by senior management to conduct monthly budget and performance reviews resulting in poor performance and under achievement of results. The AGO also noted that Treasury staff did not cooperate by way of providing regular and timely PGAS print outs to Policy and Planning Division for review and assessments.

##### Cash Books and Bank Reconciliations

The Provincial Treasury currently does not have a qualified accountant or someone with a good accounting background that can be appointed to oversee the important task of maintaining proper accounting records.

The monthly bank reconciliations were not up to date at the time of audit in July 2009. The AGO was unable to verify the correctness of the cash balance due to the various reconciling items dated back to 1990s. Due to lapses in the bank account reconciliations, fraud and embezzling of money from the operating

accounts had actually occurred as highlighted by the Internal Audit Report Referenced IAU – 22 dated 30<sup>th</sup> January 2006, in which a sum of K129,243 was fraudulently paid out to third parties with the collaboration of the bank reconciliation clerk and the PGAS Machinist.

Three of the bank account signatories had collaboratively paid themselves overtime totaling K35,526 without overtime approval from competent senior officers. The payments are observed to be fraudulent in nature and tantamount to abused of position held for personal gain. The payment vouchers were removed from the respective file.

#### Revenue Collection

Review of the controls relating to internal revenue collection and banking revealed the following weaknesses:

Perusal of revenue collections has revealed breaks in the issue of official receipts. Collector's statements were not promptly raised and filed and no senior officer monitors or verifies the daily collections. Further, internal revenue collections were wrongly receipted as RPM collection and vice-versa.

Delays were also noted on banking of collections for up to a maximum of ten (10) working days. Further, the cash officer also facilitated cash borrowings to Treasury staff from the daily collections, which is an illegal practice. List of borrowers and amounts borrowed were not forwarded for audit, intentionally concealing the irregular practice.

It has been observed that only one officer was appointed and performed the duties of Receiving and Paying Officer. Her duties included the collection of revenues, raising of collectors statements, banking of collections and posting the revenues to the PGAS Revenue Ledger. Further, no senior officer checked on the revenues collected and deposited, and the postings to the PGAS ledgers.

Surprise cash count at the cash office on 15 of May 2009 revealed K10,620 in cash held as cash collections for Kokoda LLG since February 2009. This money should have been promptly banked rather than holding it in the safe as theft and misappropriation can happen.

#### Assets Management

Assets Registers were not maintained by the Provincial Government. Consequently, it was not possible to confirm any assets owned by the Provincial Government. Further, in 2008, a sum of K451,973 was noted being spent on purchase of various assets, however, the assets purchased could not be traced to any register.

### Management of Advances

Advances totaling K303,959 paid out in 2008 remained un-acquitted as at 31 December 2008. There was no record of outstanding advances for prior years. However, a list of computer registered outstanding advances made available for the 2007 audit, has revealed a total of K1,011,802 in outstanding advances going back to 2004. There is no evidence to show that this significant amount of outstanding advances has been acquitted in 2007 or in 2008.

There was no evidence of monitoring on the advances that were paid out, to ensure advance holders acquit the advances paid to them. It was noted that, subsequent advances totaling K104,180 was paid to four (4) officers who has yet to acquit prior outstanding advances. This contravenes Finance Management Regulations Part 20 paragraph 9.3 and paragraph 12.11 which requires acquittal of prior outstanding advances before being given fresh advances.

### Salaries and Allowances

Examination of records relating to salaries and allowances paid revealed the following matters:

- Seventeen (17) staff on payroll 1/2008 were not on the establishment register for 2008. Out of these two (2) were said to have resigned, one (1) absconded and one (1) was paid by Education Department. The status of the remaining thirteen (13) was not known due to lack of record and file maintenance.
- Salaries and allowances were noted being fluctuating over three pay periods of Pay No. 1/2008, 13/2008 and 26/2008 for five (5) employees. However, supporting documents such as permanent and temporary variation advice and other supporting documents verifying the changes in pay were not sighted on their files.
- Oro Administration was not able to provide the two (2) employee contract of employments for verification of salaries and allowances paid totaling K11,163 and there were instances of employees who have resigned, or were deceased that were still on payroll.

### Payment of Accounts

Two (2) payments totaling K1,200,000 were noted being made to Fountain Finance Ltd, as payments in honor of PEC Decision No. 2/2005. Oro Administration was unable to provide detailed records relating to this payment.

A total of K318,500 was noted being paid to four (4) legal firms for provision of legal services in which the following deficiencies were noted:

- There was no endorsement from a competent authority such as consultancy steering committee to look into and award contract for legal services.

- There was no formal contract or terms of engagement signed to safeguard the interest of the Provincial Government. Further, Bills of costing could not be identified to terms of reference since there was no agreement in place containing the terms of reference.
- Bills paid were for services rendered in years prior to 2008 which had not been budgeted for in the current year.

An amount of K92,820 was paid to Ela Motors for a Toyota Land cruiser to be used as an Electoral vehicle. However at the time of audit in July 2009, the AGO was informed that the vehicle is still in Port Moresby.

A total of K1,374,653 had been processed and paid after the close of account on 15 December 2008. Payments were raised and cheques released in spite of the closing date. Cheque holders were instructed by Treasury staff to hold and present the cheques in the new financial year (2009) when funds are released. This had contributed to severe cash flow problems.

Proper internal control scrutiny of claims by the examiner and certifying officer and attachment of three quotes were not adhered to in payments totaling K3,115,404. This indicated serious internal control deficiency in the Provincial Treasury.

#### Capital Works and Maintenance

Provincial Supply and Tenders Board Meeting Minutes, contract files, progress and completion reports of projects undertaken were requested but none were made available.

Payments totaling K612,550 were noted for capital works and maintenance votes. However, the AGO perusal of the payments has revealed that most of the payments were not related to any capital works and maintenance program, but for other general expenses such as cash advance, wages, fuels, hire cars, accommodation and outstanding bills.

#### Significant 2007 Report Issues Outstanding

It was noted the following issues were still outstanding and management have failed to act and take appropriate action as recommended.

- Borrowing of cash from cash office continuing at an uncontrollable level with significant amounts still owed by treasury staff.
- Management of cash and travel advance is very weak and prone to abuse with K 1,011,802 remained un-acquitted.
- Investigative reports from Internal Audit had not been acted upon.
- Other significant matters raised in the 2007 audit report remained outstanding.

### 5.14.2 Popondetta Hospital Board

The Popondetta General Hospital submitted their 2008 financial statements in April 2009. The audit was completed, with management letter issued and a disclaimer of audit opinion issued. The findings regarding the financial statements and the control environment are detailed in the paragraphs below.

#### Corporate Governance

The Hospital Board does not have a corporate plan that establishes long term objectives, sets priorities and targets and takes into account the requirements of its stakeholders. The associated plans that need to be established to support the corporate plan have not been prepared. These plans are; financial, asset management, human resource, information technology, risk management and divisional operating plans.

The overall National Department of Health's Corporate Plan (2009 – 2013) needs to be incorporated into the Hospital's plan which emphasizes on the following Key Result Areas; healthier communities, improved Support for Service Delivery and better management.

#### Budgetary Control

The Hospital's Budget, Appropriation and Actual receipts against actual expenditures revealed over expenditures by ten (10) vote items amounting to K592,515.

#### Revenue

There were instances of delays in banking up to a maximum of three (3) days and copies of receipts issued were not attached to collector statements.

#### Cash Books and Bank Reconciliations

It was observed that the system based (Attaché) bank reconciliation had been done by the system. However, cashbooks with running balance for the operating, trust and project accounts have not been maintained.

#### Payment of Accounts

- In fourteen (14) instances of payment for patient's rations including pharmaceutical goods and office supplies totaling K54,883 did not have three (3) different quotations from various suppliers. There were also no delivery dockets sighted to confirm actual receipt of goods by an independent officer from Accounts Section.
- Four (4) payments totaling K29,263 for routine maintenance, paid to various service providers had the following abnormalities; Board did not sanction the engagement, there was no agreement in place, no maintenance request forms from respective sections and inspection and completion reports were not sighted.

- Fifteen (15) recreational leave fare payments totaling K118,362 to various Officers and their families of the Hospital had no birth and student concession certificates for all their legal dependants for legitimacy and validity. Most quotation and invoices that were said to be from service providers deemed to have been fabricated with costing unrealistically inflated in an attempt to defraud the State and its agencies.
- Rental payments for Contract Officers had fourteen (14) payments totaling K80,065.39 to four (4) land lords had no lease agreement formalized.

#### Assets Management

The Popondetta General Hospital has a yearly assets register. The assets register maintained failed to incorporate all assets acquired by the Hospital for prior years. There was no combined / master asset register maintained to consolidate all assets from previous years. Also, the register failed to capture any disposal, wastage, damage, obsolesces and theft of prior years assets. There had not been any sign of stock take undertaken to indicate the physical state of the asset and their current usage condition.

#### Advance Management

There was no Travel advance register maintained. Also acquittal policy was not complied with, as such all travel and subsistence totaling K24,436 in eleven (11) instances for the year were never acquitted. The AGO could not ascertain whether travel and advances were actually utilized for the intended purposes.

#### Salaries and Wages

Salary advances totaling K49,464 had been advanced to 40 staff of the Hospital but never recouped from the advance holders.

### **5.14.3 Popondetta – Urban Local-level Government**

Popondetta Urban Local-level Government submitted its 2008 financial statements in April 2009. The audit was completed with a disclaimer of audit opinion issued in November 2009. The general observation was that there were no adequate controls over payment processes, assets, and approvals, segregation of duties and reconciliations, with the risk of misappropriation assessed as very high. Also, the financial statements contained various errors and inaccuracies and were assessed as unreliable.

#### Corporate Governance

Popondetta Urban Local-level Government does not have a Corporate Plan that establishes long term objectives, sets priorities and targets and takes into consideration the requirements of its stakeholders. The associated plans that need to be established to support the corporate plan have not been prepared. These plans are financial, assets management, human resource, information technology, risk management and divisional operating plans.



### Budgetary Control

There was a failure by senior management to conduct monthly budget and performance reviews and such non reviews of performance contributed to poor performance or underachievement of results.

The Popondetta Urban LLG did not receive Administrative and Derivation Grants from the National and Provincial government. However, it was noted from the Assembly meeting minutes that the Derivation Grant was withdrawn by the Provincial Administration and deposited into the Provincial Disaster Operational account for general disaster operations. This is contrary to the Appropriation Act as this transfer is not in line with the intended purpose of the Derivation Grant.

### Cash Book and Bank Reconciliations

The cash book was not maintained appropriately and entries were not entered into the system in a timely manner therefore the monthly cash book balances were not correct and were not properly brought forward to each succeeding month. The 2008 monthly Bank Reconciliations were not prepared.

Grant transfers between revenue heads and from Provincial and National Government were never entered to the cash book.

Bank confirmations obtained for the PULLG Operating Account showed a credit balance of K7,146 which did not agree to the bank reconciled balance since there was no systematic maintenance of bank reconciliation statements.

### Revenue

There was no segregation of duties in the collection of cash, recording and banking. As a result, revenue collections could not be independently verified. A random sampling of the collector's statements selected for testing and verification revealed the following weaknesses:

- delays in banking were noted from two to five working days; Cash count revealed a total of K 3,790 cash was not banked promptly,
- Some receipts were missing and original copies were not attached to neither the collector's statement nor the book fast copies.
- In some instances, collector's statements were not signed by the checking officer as part of the internal control processes.

A significant portion of internal revenues were mandatory but there were nil collection or under collection.

Accountable forms register for 2008 was not maintained therefore the AGO could not verify independently the receipts books issued to the Urban Local-level Government.

### Payment of Accounts

A review of the procurement and payment procedures revealed instances of irregularities and non compliance with the *Public Finances (Management) Act 1995*.

- A total of fifty (50) payments totaling K354,465 were not certified by the certifying officer before being processed. Of these payments K289,560 were payments made out of the District Support Grant (DSG).
- Twenty four (24) payments totaling K114,969 had no proper supporting documentation for verification such as invoices accountability reports.
- In one instance payment of K2,310 for vehicle hire had not been approved by financial delegates.
- A payment of K55,000 on cheque number 18 paid to Sunrise Development Corporation being for the repair and maintenance of the Ijivitari Boat in Madang had no status or progress report on the repair and maintenance of the Boat.

### Assets Management

The Popondetta Urban Local-level Government had not maintained assets registers to incorporate all assets acquired by the Urban Local-level Government. Assets totaling K10,553 purchased in 2008 were not recorded in the Assets Register. Information on assets register should in most cases, contain the purchase value, detail description, condition of assets, location and custodianships.

### Advance Management

Accumulated unacquited advance balances from 2005 to 2008 amounted to K82,638.

A total of K27,315 cash advances were not recorded in the Cash Advance register. Out of that K21,140 was paid inappropriately out of the District Support Grants.

Advances totaling K41,515 remained un-acquitted as at 31 December 2008 and require a thorough investigation for prompt clearance and recovery in a systematic manner.

Serious concerns were noted pertaining to instances of substantial and additional advances issued to existing advance holders in spite of prior advances remaining un-acquitted thus rendering a direct breach and violation of advance policy and acquittal procedures.

Salaries and Allowances

A total of four (4) staff are employed by the Popondetta Urban Local-level Government as casuals but could not confirm to establishment register and fortnightly payrolls due to lack of records. There was no register maintained for allowances paid to Councilors and other respective officers.

## 5.15 SANDAUN PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Sandaun Provincial Government	2008	2008	May 2010 Disclaimer	Significant audit issues identified
Vanimo Hospital Board	2008	2008	May 2010 Disclaimer	Significant audit issues identified
Vanimo Urban	2008	2008	May 2010 Disclaimer	Significant audit issues identified
Amanab	2008	No		
Bewani	2008	No		
East Aitape	2009	No		
East Waipre	2009	No		
Green River	2008	No		
Oksapmin	2003	No		
Maimai	2009	No		
Nuku	2009	No		
Namea	2003	No		
Palai	2009	No		
Telfomin	2003	No		
Walsa	2008	No		
West Aitape	2009	No		
West Waipre	2009	No		
Yangokok	2008	No		
Yapsie	2003	No		

### 5.15.1 Sandaun Provincial Government

The audit of the 2008 financial statements was completed and the management letter was issued but no response was received from the Provincial Administration. A disclaimer audit opinion was issued in May 2010. The control weaknesses identified in 2008 are detailed in the paragraphs below.

#### Budgetary Controls

The Budget Officer did not issue Warrant Authorities and Cash Fund Certificates to correspond with actual revenue received. This practice had resulted in the Over-Release of funds through Warrant Authorities and Cash Fund Certificates by

K573,846. The above practice had also resulted in an over expenditure of K344,294.

#### Revenue

Significant revenue shortfalls under the respective revenue votes were noted during the year due to unrealistic or ineffective enforcement of revenue collection.

Revenue Registers relating to Liquor Licensing, Motor Vehicle Registration, Drivers License, etc were not maintained by the Revenue Officer. Subsequently, I was unable to verify the completeness of the reported Provincial Internal Revenue.

Reconciling items relating to revenue appearing in the bank reconciliation statement were not posted to the revenue ledgers and as such these were not incorporated in the total revenue balance.

#### Cash Book and Bank Balances

The monthly bank reconciliations of Sandaun Provincial Government Operating Account for the years 2007 to 2008 were still not compiled at the time of audit in December 2009.

Provincial Treasury Operating Account as at 31 December 2008 contained significant reconciling items that were not cleared and were carried forward to 2009 as shown in the month of August 2009 bank reconciliation. These reconciling items dated back to 1996. No serious attempt has been made to investigate and clear these items.

#### Procurement and Paid Accounts

A report on the Operations of the Provincial Supply and Tenders Board for 2008 was not furnished to the Central Supply and Tenders Board as required. The Minutes of the Tenders Board were not descriptive enough; did not include the amount of the contractors bid etc. The minutes of meeting number 1 and 2 of 2008 were not signed by the Chairman and the Executive Officer of the Tenders Board.

There was no Tender Box in use as required by Tender Board Regulations.

The above observations were also reported in 2004 to 2007 audit management letters. The Provincial Government replied that appropriate action would be taken to remedy the problems. However, at the time of audit in December 2009, these matters were still outstanding.

Expenditures were charged to Incorrect Votes and three (3) quotations were not obtained prior to the purchase of goods and services.

#### Assets Management

An Assets Register was not maintained during the 2008 financial year. Periodic stock takes were also not undertaken. In the absence of the assets register, I was

not able to ascertain the existence and the value of assets as at 31 December, 2008.

#### Capital Works and Maintenance

The Planning and Technical Branch has failed over the years to ensure there is value for money for works and maintenance carried out. As reported in 2004 to 2007 management letters, there is no close supervision of projects undertaken by contractors including maintenance works resulting in projects being delayed, left abandoned and not completed at all. The contractors were running out of funds and asking for additional funds or being paid without completing the projects. Also, the Provincial Government has never penalized any contractors for failing to complete the projects.

#### Advance Management

There was no effective control in place over the payment and acquittal of advances resulting in significant amount of un-acquitted advances at 31 December 2008 totaling K1,575,182. These advances dated back to 2000. Also, new advances were given to Officers who had previous advances outstanding which is contrary to the finance requirements.

#### Internal Audit

The Annual Work Plan of the Internal Audit Unit has not been implemented effectively, due to lack of staff and inadequate funding. There was no Audit Committee to oversee the objectives and the activities of the Internal Audit. An Audit Charter that sets out the mandate and the scope of the internal audit activities was not prepared.

### **5.15.2 Vanimo Hospital Board**

The Hospital Board has submitted their financial statements for 2008 for audit in November 2009. Field audit was completed and management letter was issued. No response was received from the hospital management. Disclaimer of audit opinion was issued in May 2010.

In general, it was found that the Hospital lacked documented finance and administration policies and procedures to specifically address internal processes and controls. The appointment of requisitioning and approving officers was also not documented. It was found that there was inadequate reporting of financial information (budgets/cash flow) and performance measurement of achievements both internally and externally.

#### Budgetary Controls

Examination of records and documents relating to Budgetary Control revealed the accounting system has collapsed while necessary records could not be retrieved. The manual ledger and cashbook were not maintained appropriately to consistently account for all remittances and maintain quarterly report accordingly.

Funds allocated annually through the National Budget under Section 22 of the Act and internal revenue, were in most occasions expended not in accordance with the Appropriation Act and the trust instrument. For instance, unauthorized and unbudgeted funds from Trust Account were being used to meet budgeted expenditures under the Operational account while proper accounting procedure was not applied to account for the monies transferred to the operating account.

Other evidences noted pertaining to over sight and weaknesses in commitment controls were:

- Outstanding CFCs from previous year were not formulated into the next year budget. For example; a total of K167,100 disclosed from three (3) expenditure vote items were not included in the 2009 financial year budget.
- Commitment of funds from expenditure items have been overlooked in five (5) items resulting in over commitment totaling K506,419.

#### Revenue

Delays in posting deposits to trust account has been noted in the previous years and the current year. This occurrence has prompted consistent disclosure of "receipts in cashbook not in bank" in every bank reconciliation.

Absence of proper functional accounting system has resulted in the non disclosure of accounting records to verify the receipts per collector statements and postings into the appropriate records.

There was lack of Inward Remittance Register to enter inward valuable such as cash cheques, donations in cash and kind.

#### Cash Book and Bank Balances

Computer Cash Book was not produced. Neither the computer produced ledgers for the receipt and payment was sighted nor made available for audit. Manual cash books were poorly maintained, not containing all transactions and end of month reconciliation and closing balance, while adjustments pertaining to transfers, reimbursements, cancelled and dishonored cheques were treated as receipts and payments in the same period.

It is a mandatory requirement for the Hospital Management to reconcile the Bank Accounts on a monthly basis. Bank balances should be reconciled against the Cashbook balance and the reconciled Cash Book balance should be agreed with the Appropriation Ledger for Operating Account and General ledger for Trust Account. In view of these requirements a review of the final monthly reconciliations revealed numerous errors and irregularities.

#### Procurement and Payment Procedures

The Hospital lacked proper accounting system, system control, and understanding of Commitment control and Procurement and payment procedures. The system had collapsed which resulted in no reliable reports produced.

Apart from payments not strictly complying with the procedures prescribed in the *Public Finances (Management) Act and Finance Instructions*, incorrect expenditure was incurred out of Trust Account, required number of quotations was not obtained and payments were incurred for cash advances.

Accountable officers have also allowed payments to be incurred without due concern of the procedures and purpose of payments resulting in unrecoverable amounts yet to be reimbursed such as:

- Illegal purchase and payment of a pistol at the value of K19,800 from a former politician without a legal document such as the authority from the Police Department to purchase, a license, and the authority from the Hospital Board to expend fund for that purpose. Further, it is noted that the Hospital is not authorized to possess a weapon for security purposes. The AGO was verbally informed that the pistol was repossessed by the Police however no written confirmation was received.
- A substantial amount of money had been incurred on the new operating theatre since its inception on 24 March 2007. The theatre was to be completed by 31 December 2007. To-date an estimated total of K1,630,658 has already been spent for the project and the theatre is still work in progress. According to records and other sources contractors and sub-contractors have abandoned the project, while the Board and Management are attempting various options to complete the project. It was understood that outstanding issues are yet to be address in light of outstanding payments to sub-contractors for wages, materials, air conditioning, etc. To complete the project would require additional funding at an estimated value of K300,000. This would mean that the project will incur in excess of the projected cost at the expense of the Hospital Board. This is evident of a very poor project management.
- It was noted from the 2009 commitment ledger that a sum of K30,000 was recklessly incurred on an un-official trip to Israel for a religious ceremony. Six (6) members of the Hospital staff travelled in their own accord receiving assistance from the Hospital without the Board's approval and without due care that public funds are being misused. It was observed that one (1) of the six(6) members was not a hospital staff. A payment of K5,000 was made to the respective members who traveled to Israel. As at the date of this audit no refund or attempt was made from the traveling members to refund the money.

#### Assets Management

The Hospital failed to ensure a comprehensive Assets Register was maintained during the year to record details of all capital assets purchased and owned by the Hospital. No annual stock take of assets and Inventories of the Hospital were undertaken during the year. These matters were highlighted in our previous reports. No action was taken by the management to address the issue.



### **5.15.3 Vanimo Urban Local-level Government**

The 2008 financial statements of Vanimo Urban Local-level Government were made available for audit in November 2009. The audit was done and the Management letter was issued but no response was received from the management. Disclaimer of audit opinions was issued in May 2010. The paragraphs below detailed issued identified with the financial statements.

#### Budgetary Controls

Proper budgetary control practices were not being adhered to by the Urban Local-level Government during the 2008 financial year which has resulted in over expenditures and expenditures charged to wrong votes.

#### Revenue and Banking

Significant shortfalls in revenue collections totaling K214,004 were noted in (11) revenue heads. This is an indication of unrealistic revenue forecast or ineffective revenue collection measures in place.

Reconciling items relating to revenue appearing in the bank reconciliation statement were not posted or adjusted to the revenue ledgers and as such were not incorporated in the total revenue balance shown in the financial statement.

There is no safe maintained by the Urban LLG to keep unbanked collections and other valuables. Unbanked collections should be locked away in a safe.

Review of selected samples of collectors statements and deposit slips revealed delays in banking of receipts ranging from two (2) to Sixty-four (64) days.

Collection of public monies is done by a staff member who is not a duly appointed Collector of Public Monies. Collections are made at the Reception area where the KBO is sitting which is not enclosed and is not safe.

Proper official receipt books were not used to issue receipts for collections made during the year. An invoice/statement book or sometimes ordinary A4 size papers were used to issue receipts with imaginary official receipt numbers written on it. These books/papers were not registered in a proper accountable form register to keep track of what was issued for receipting and if receipts issued were officially recorded.

There was no proper control over daily takings from the market. No official receipt books with pre numbered pages were used where completed official receipt books were maintained and cancelled receipts were attached to the book fast. Further, there was no records of market tickets maintained. Hence, audit was not able to ensure that all daily market takings were returned intact and accounted for properly.

Instances were noted where the daily takings from the market were used for purchase of items such as fuel, new market ticket books and even takings were borrowed by staff without following proper financial procedures. There was no record maintained to ensure that borrowings from the collections were repaid.

Proper measures were not taken with regard to long outstanding debtors for garbage and sanitation, land rates and rentals etc. Further, no follow up actions were taken to ensure that defaulters show up with their dues. As a result, audit noted significant under collections as against their budget. Debtor's ledgers were not maintained and up-dated as and when payments from debtors came in.

The risk of loss of revenue is very high in this situation where proper controls relating to collection of revenue are not working effectively.

#### Cash Book and Bank Balances

The cash book maintained for the Urban Local level Government Operating Account had a closing over drawn balance of K181,708 as at 31 December, 2008. This cash book balance is not a true representation of the financial position of the Vanimu Urban Local-level Government as it did not have an overdraft facility with the bank. When queried, audit was told that this credit balance was carried over from prior years when the LLG transferred its manual account to the PGAS financial management system. No corrective actions have been taken to rectify this incorrect balance.

There was no evidence to satisfy audit that all monthly bank reconciliation statements were checked and certified as correct by a senior person other than the one preparing it. This check is necessary so that errors can be detected and corrected on time.

The schedules in the monthly bank reconciliation statements included un-reconciled items appearing either in the bank statements or cash book which needed to be adjusted and reconciled promptly. These items have been carried over from prior years dating back to 2002 and were not identified and written back to cash book or the respective revenue and expenditure ledgers.

#### Procurement and Payment Procedures

A random sample of paid accounts selected from the payment vouchers file for testing revealed the following:

In almost all the payments sighted, there was no systematic procedure in place for procurement of goods and services. Quotations were not obtained from three (3) suppliers as required by the *Public Finances (Management) Act*. In most cases only one or two quotes were obtained and the payments were based on the quote instead of an approved invoice. The LLG did not maintain a quotation register.

The specimen signatures of the duly appointed section 32 officers were not maintained. As a result, the signatures for the section 32 officers for majority of the selected sample of payment vouchers were not verified.

In twenty-seven (27) instances, expenditures totaling K34,348 were incurred out of incorrect expenditure votes.

### Assets Management

A complete and up to date Assets Register was not maintained. Periodic stock takes were also not done. And as such, it was not possible to confirm the existence, custody and condition of the Urban Local level Government's assets.

### Advance Management

The Vanimbo Urban Local-level Government did not maintain a proper advance register to record all travel and cash advances given during the year. Further, a report of all un-acquitted advances was not provided for review although, outstanding advances from prior years totaling K50,228 remained un-acquitted at year end. In the absence of a register, I was unable to ensure that these advances have been acquitted.

### Salaries and Allowances

Financial statements disclosed total salaries, wages and allowances as K151,373 which comprised of K121,873 wages and K29,500 Councilors' allowances. The wages and allowances paid could not be ascertained as correct as the approved pay structure and the SRC determination for Councilors and the Mayor were not provided for review.

The Urban Local-level Government currently did not have a Staff Establishment Register with funded positions and Personal files. Further, the approved pay structure for the Urban Local level Government was not available for review. As a result, the pay rates paid to the staff and the councilors could not be verified as correct.

Wages and salaries tax declaration were not filed and maintained for individual staff. As a result, it appeared that taxes were not deducted from the wages and allowances which is a violation of the taxation regulation.

### Corporate Governance

The Vanimbo Urban Local-level Government does not have a Corporate Plan in place that establishes long term objectives, set priorities and targets and take into account the requirements of its stakeholders. I was informed that the Urban Local-level Government's Corporate Plan was to be formulated by the Provincial Government, however, this has not eventuated to date at the time of audit in December 2009.

### Internal Audit

There were no regular internal audit checks carried out by the Internal Audit Unit of the Provincial Government into the routine operations of the Urban Local-level Government during the year under review.

## 5.16 SIMBU PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Simbu Provincial Government	2008	2008	June 2010 Disclaimer	Significant control weaknesses identified
Kundiawa Hospital Board	2008	2008	April 2010 Disclaimer	Significant control weaknesses identified
Chuave	2005	No		
Elimbari	2005	No		
Gena/Wangia	2005	No		
Mt. Digne	2005	No		
Gumine	2005	No		
Karimui	2005	No		
Kerowagi Urban	2005	No		Audits to be disposed
Kerowagi Rural	No data			
KumaiBomai	2005	No		
Kundiawa Urban	2008	2008	June 2010 Disclaimer	Significant control weaknesses identified
Lower/Upper Koringl	2005			
Kup	2005	No		
Mitnande	2003	No		
Nigikande	2005	No		
Nomane	2005	No		
Salt	2005	No		
Siane	2005	No		
Sinasina/Yongamugl	2005	No		
Suwai	2005	No		
Tabare	No data			
Waiye	2003	No		
Chimbu Holdings				No recent financial statements; status of the entity/audit to be determined

#### **5.15.1 Simbu Provincial Government**

The audit of Simbu Provincial Government financial statements for the year ended 31 December, 2008 was unsatisfactory with disclaimed audit opinion being issued. The paragraphs below detail issues identified with the audit of the financial statements.

##### Provincial Executive Council (PEC) Meeting Minutes

The Simbu Provincial Executive Council and Assembly Meeting Minutes were not provided for audit examination. Consequently, I was unable to ascertain whether decisions on financial matters have been implemented and whether those decisions were in accordance with the financial legislation.

- Payment vouchers totaling K649,719 were not made available to audit for examination. As such audit could not verify the genuineness of these payments.
- There were 74 instances where payments totaling K2,457,769 were made under incorrect vote items contrary to budgetary provisions.
- Cash Advances as well as Travelling Allowances totaling K2,950,291 were paid during the year without being acquitted.
- Payments totaling K53,357 were made contrary to the Public Finances (Management) Act 1995 as reimbursement for cash borrowed by various Simbu Provincial Government employees and divisions on behalf of the Simbu Provincial Government for fuel and other related expenses without statements for fuel/services supplied by the Suppliers.
- The Provincial Supply and Tenders Board did not produce records of meeting minutes as well as a tender register containing relevant details of tenders invited, quotations received and contracts awarded to successful bidders during the year under review.
- The Internal Audit Unit was inadequately funded to enable it to perform its functions and responsibilities. Also, there was no Audit Charter to set out scope of audit coverage and activities to be undertaken. Furthermore, the Provincial Government did not have an Independent Audit Committee to oversee the activities of the Internal Audit Unit.

#### **5.15.2 Kundiawa Hospital Board**

The audit of Kundiawa General Hospital financial statements for the year ended 31 December, 2008 was unsatisfactory with disclaimed audit opinion being issued. The audit findings are as follows:

- The General Hospital did not maintain accounting records and asset register for fixed assets purchased in previous years. In the absence of complete assets register, I was not able to verify the completeness, existence, accuracy and valuation of the fixed assets at the year end.

- No advances register has been maintained. Travel advances and subsistence totaling K132,042 for the year were never acquitted. Therefore, there was 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.
- The Hospital did not maintain expenditures ledgers to record expenditure under the various votes as a basis for the production of the financial statements. As a result, I was unable to verify the expenditure under the various votes shown in the financial statements.
- The Hospital's income included collection of hospital fees in cash. There was no system of control over the collection of hospital fees and there were no procedures which the I could apply to verify the completeness of the hospital fees. Consequently, I was unable to ensure the completeness and accuracy of the Other Income of K381,036.

### 5.15.3 Kundiawa Urban Local-level Government

The audit of Kundiawa Urban Local-level Government financial statements for the year ended 31 December, 2008 was unsatisfactory with a disclaimed audit opinion being issued. Paragraphs below detail issues identified during the audit of the financial statements.

- There was no proper system of revenue collection in place as one person was responsible for receipting, custody, recording and banking of receipts. In the absence of separation of above functions, there is possibility that receipts/revenue could be misappropriated or applied for unauthorized purpose. Consequently, the completeness of the revenue collected during the year could not be vouched.
- Examination of controls over expenditure revealed that payments have been made without supporting documentation, and instances were noted where payments were not examined or certified as required by *Public Finance (Management) Act 1995*.
- The Town Council did not maintain appropriate records for its fixed assets to facilitate the valuation and determination of the existence of its assets. Also, the management did not carry out any physical verification of the assets. It was therefore, not practicable to extend audit procedures to verify the existence and valuation of the fixed assets.
- Advances Registers had not been maintained to record advances granted during the current and prior years and as a result, audit was unable to determine the outstanding advances.
- The Kundiawa Urban Local Level Government did not have a Corporate Plan that establishes long term objectives, sets priorities and targets and takes into account the requirements of its stakeholders.

## 5.17 SOUTHERN HIGHLANDS PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Southern Highlands Provincial Government	2008	2008	June 2009 Disclaimer	2009 financial statement not submitted
Mendi Hospital Board	2008	2008	June 2009 Qualified	2009 financial statements not submitted
Awi/Pori	2008	No		
East Pangia	2005	No		
Erave	No data			
Hayapuga	2007	No		
Hulia	2008	No		
Ialibu Basin	2008	No		
Ialibu Urban	2008	No		Audit to be dispensed
Imbongu	2005	No		
Kagua	2008	No		
Karints	2008	No		
Kewabi	2007	No		
Komo	2008	No		
Kuare	2008	No		
Lai Valley	2007	No		
Lake Kapiago	2008	No		
Lake Kutubu	2005	No		
Lower Mendi	2008	No		
Aiya	2008	No		
Mendi Urban	2005	No	No FS	No recent financial statements. Audit to be dispensed.
Mt. Bosavi	2008	No		
Nembi Plateau	2008	No		
Nipa Basin	2005	No		
North Koroba	2005	No		
Poroma	2008	No		
South Koroba	2008	No		
Tagali	2005	No		
Tari Urban	2005	No		Audits to be disposed

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
South Wim	2005	No		
Upper Wage	2008	No		
Lower Wage	2005	No		
Tebi	2007	No		
Upper Mendi	2007	No		
Kutubu Development Authority				No recent financial statements; status of the entity/audit to be determined

#### 5.17.1 Southern Highlands Provincial Government

At the time of preparation of this report, the financial statements for the year ended 31 December, 2009 has not been submitted for audit.

#### 5.17.2 Mendi Hospital Board

At the time of preparation of this report, the financial statements for the year ended 31 December, 2009 has not been submitted for audit.

#### 5.17.3 Mendi Urban Local-level Government

The audit of Mendi Urban Local-level Government financial statements for the years ended 31 December, 2005 to 2006 were never prepared and submitted for audit. Whilst the 2007 financial statements were reported as dispensed in the last year's report, the 2008 audit of the financial statements is also dispensed this year due to non-submission. At the time of preparation of this report, financial statements for 2009 were not submitted for audit, hence this audit may also be dispensed.



## 5.18 WEST NEW BRITAIN PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
West New Britain Provincial Government	2008	2008	June 2 010 Disclaimer	Significant control weaknesses identified
Kimbe Hospital Board	2008	2008	June 2010 Disclaimer	Significant control weaknesses identified
Bali Witu	2008	No		
Bialla	2008	No		
Gasmata	2007	No		
Gloucester	2007	No		
Hoskins	2008	No		
Kandrian Coastal	2007	No		
Kandrian Inland	2007	No		
Kimbe Urban	2008	2008	June 2010 Disclaimer	Significant control weaknesses identified
Kombe/Kaliai	2007	No		
Mosa	2008	No		
Talasia	2008	No		
West New Britain Development Corporation	2004			2002 – 2004 audit fees awaited; no recent statements submitted for audit
Cape Hollman Corporation				Entity dissolved i; status of the entity/audit to be determined
West Farm Resources				No recent financial statements submitted; status of the entity/audit to be determined
Kimbe Frozen Food Delicatessen				No recent financial statement submitted; status of the entity/audit to be determined
Kimbe Enterprises				No recent financial statements submitted; status of the entity/audit to be determined

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
West New Britain Building Supplies				No recent financial statements submitted; status of the entity/audit to be determined
West New Britain Provincial Government Share Trust Number 1 & 2	2009	2008 & 2009	May 2010 Unqualified	No significant weaknesses noted

#### 5.18.1 West New Britain Provincial Government

The audit of West New Britain Provincial Government financial statements for the year ended 31 December, 2008 was unsatisfactory with disclaimed audit opinion being issued. The paragraphs below detailed issues identified with the financial statements.

- Payment vouchers relating to payments totaling K1,218,242 were missing from files hence, the validity of the claims could not be ascertained.
- The Provincial Government paid grants and subsidies totaling K572,602 to Presidents of various Local Level Governments, Schools, Public Authorities and to Non Profit Organizations. These entities did not furnish accountability reports to the Provincial Government as evidence of the receipt of the grants.
- Payments totaling K2,039,676 were not supported with three (3) written quotations from supplies.
- Payments totaling K1,210,731 were not supported with approvals granted by the Provincial supply and Tenders Board.
- Advance payments of K10,000 and K20,000 were made to two suppliers for the supply of tyres, tubes and panel beating work. Supporting vouchers evidencing the receipts of goods and services from these suppliers were not produced for review.
- The Certificates of Completion duly certified by a competent technical staff of the Provincial Government indicating satisfactory completion of capital and maintenance works by contractors totaling K2,820,104 were not made available for examination.
- The Internal Audit Unit was inactive during the year as it did not prepare any annual work program nor undertake any audit tasks for the year under review. In addition, there was no Audit Charter setting out the mandate and scope of audit coverage and activities to be undertaken by the Internal Audit Unit.

- The West New Britain Provincial Government did not have a Corporate Plan in place during the year under review. However, I was advised that a Corporate Plan developed for 2006 and beyond was yet to be launched by the Provincial Government.

#### **5.18.2 Kimbe Hospital Board**

The audit of Kimbe General Hospital financial statements for the year ended 31 December, 2008 was unsatisfactory with disclaimed audit opinion being issued. Issues identified with the financial statements were:

- Travel advances and subsistence totaling K7,206 granted during the year were unacquitted. Therefore, there was limitation of scope as I could not ascertain whether the advances were actually utilized for the intended purposes or not.
- The total revenue collection could not be verified as copies of receipts and bank deposit slips were not attached to the collectors' statements.
- There was no segregation of duties between receipting, banking and recording of cash receipts and payments.
- Payments totaling K81,511 were made without proper Suppliers invoices and other relevant supporting documents to confirm the legitimacy of claims prior to processing payments.
- Payments for minor works and maintenance contracts totaling K124,847 which were undertaken and completed during the year were not properly supported by work in progress reports and/or certificates of completion which had been duly certified by a technical and competent authority from the Hospital Management.
- There were no checks and balances measures in place to ensure pays were paid only to individuals who worked for the Hospital.
- The data input terminal is located at the Department of Health's Headquarters. Edited listings could not be checked to payroll records.
- The Kimbe General Hospital did not prepare an annual estimate of revenue and expenditure for the Hospital Fees trust account for the year ended 31 December, 2008 in compliance with the provisions of the Trust Instrument.
- The Kimbe General Hospital did not have a Corporate Plan in place that establishes its long term objectives, sets out its priorities and targets which take into account the requirements of its stakeholders and the needs of the communities it serve.

### **5.18.3 Kimbe Urban Local-level Government**

The audit of Kimbe Urban Local-level Government financial statements for the year ended 31 December 2008 was unsatisfactory with disclaimed audit opinion being issued. The paragraphs below detail issues identified with financial statement.

- Employee personal files not maintained, hence unable to verify accuracy of salaries paid.
- Records relating to the Trust Fund Account were not provided for my review, hence I could not verify the accuracy of the over-drawn account balance of K662,509.
- No bank reconciliations done during the year under review.
- Sixteen instances of payments totaling K50,940 were not supported by relevant documentations.
- Travel Advances Register and acquittal records not maintained.

### **5.18.4 West New Britain Provincial Government's Share Trust Number 1 & 2**

The audit of the financial statements of West New Britain Provincial Government's Share Trust Number 1 & 2 for the years ended 31 December 2008 and 2009 were satisfactory with an unqualified audit opinion issued.

## 5.19 WESTERN HIGHLANDS PROVINCE

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Western Highlands Provincial Government	2008	2008	April 2010 Disclaimer	Provincial Administration building and records were destroyed by fire
Mount Hagen Hospital Board	2008	2007	June 2010 Dispensed	Significant control weaknesses identified
Aiya	2008	No		
Anglimp	2008	No		
Baiyer	2008	No		
Muglamp	No data	No		
Hagen Rural	2007	No		
Hagen Urban	2008			Financial Statements for 2008 have not been submitted
Dei	2004	No		
Jimi	2009	No		
Kol	2009	No		
Lumusa	2008	No		
Mt. Giluwe	2008	No		
Mul	2008	No		
Nebilyer	2008	No		
North Waghi	2007	No		
Kotna	No data	No		
Nondugl	No data	No		
South Waghi	2008	No		
Melpa Properties Ltd	2001	2001	WPF, ML & draft report missing	WP File missing between AGO & Auditors; no recent statements; audit to be determined.
Wamp Nga Holdings	2007	In progress		2006 audit under review; 2007 await a/fees; 2008/2009 financial statements awaited
Petrol Haul Ltd	2007	In progress		2006 audit under review; 2007 await a/fees; 2008/2009 financial statements awaited

Entity	Year for which Last Financial Statements were Submitted	Financial Statements Audited	Audit Opinion	Other Details
Vegmark Ltd	2007	In progress		2006 audit under review; 2007 await a/fees; 2008/2009 financial statements awaited
Peninsula Shipping Lines (PNG) Ltd	2007	In progress		2006 audit under review; 2007 await a/fees; Coy ceased in 2007.
Western Highlands Sport Stadium Trust				No recent financial statements submitted; status of the entity/audit to be determined
Western Highlands Development Corporation				No recent financial statements submitted; status of the entity/audit to be determined

#### 5.19.1 Western Highlands Provincial Government

The audit opinion expressed on the financial statements of Western Highlands Provincial Government for the year ended 31 December 2008 was as follows:

##### "Unavailable Documents and Records

There was scope limitation in carrying out the audit of the 2008 financial statements due to the burning down of the Provincial Administration Building in October, 2008 and as a result documents and records were not available. The requested reports and supporting documentation such as Cash Books, Bank Statements and Bank reconciliations, Revenue and Expenditure Ledgers, Revenue Collection and Payment Records, Budget Books, Assets Register, Advances Register and Minutes of Assembly Meetings were not provided for audit verification."

#### 5.19.2 Mount Hagen Hospital Board

At the time of preparation of this report, the Mount Hagen General Hospital had not submitted its 2008 financial statements for audit. The audit of the 2007 accounts was completed with disclaimer of audit opinion issued. The paragraphs below detail issues identified with the audit.

The Hospital did not maintain expenditure ledgers to record expenditure under the various votes as a basis for the production of the financial statements. Hence,

the expenditure under the various votes were not appropriately disclosed in the financial statements.

- Travel advances and subsistence totaling K58,600 granted during the year were unacquitted. There was limitation of scope as I could not ascertain whether the advances were actually utilized for the intended purposes or not.

There was limitation of scope on payment of accounts due to:

- There was no proper appointment of enquiry officer, registration officer, commitment and examiner officer. As a result, payments were not properly examined and authorized.
  - Payments for minor works and maintenance contracts which were undertaken and completed during the year were not properly supported by work in progress reports and/or certificates of completion which had been duly certified by a technical and competent authority from the Hospital Management.
- There were significant weaknesses in controls over payroll and staff wages, as follows:
  - There are no checks and balances measures in place to ensure pays are made only to individuals who work for the Hospital.
  - The data input terminal is located at the Department of Health's Headquarters. Edited listings could not be checked to payroll records.
- The Mount Hagen General Hospital did not prepare an annual estimate of revenue and expenditure for the Hospital Fees trust account for the year ended 31 December, 2007 in compliance with the provisions of the Trust Instruments.

### 5.19.3 Mount Hagen Urban Local-level Government

The Mount Hagen Urban Local-level Government financial statements for the year ended 31 December, 2008 are yet to be submitted for audit.

### 5.19.4 Melpa Properties Ltd

Melpa Properties Ltd is a wholly owned company of the Provincial Government. The 2004 financial statements of the Provincial Government showed shares held in Melpa Properties Ltd at the cost of K719,202. I was unable to verify the value of the shares and dividend earned from the investments due to the absence of the financial statements of the investee company and its inability to confirm the Provincial Government shareholding in the company. The last financial statements submitted for auditing was for the 2001. These statements did not conform to the requirements of the International Accounting Standards or the *PNG Companies Act 1997*.

#### **5.19.5 Wamp Nga Group of Companies**

The Wamp Nga Group of Companies comprise: Wamp Nga Holdings Ltd, Vegmark Ltd, and Petrohaul Ltd. Peninsula Shipping Lines (PNG) Ltd, a new addition to the Group, began operation in 2006 but ceased in 2007 financial year. At the time of preparing this report in September, 2010 the audit of the financial statements for 2006 had been completed and the results were being evaluated. Audit for 2007 financial statements were to re-commence, but awaiting audit fees while the financial statements for 2008 and 2009 were awaited.



## 6.0 DISTRICT SERVICES IMPROVEMENT PROGRAM

### Executive Summary

#### Introduction

This report deals with the review of expenditure relating to District Services Improvement Program (DSIP).

Specifically the report:

1. identifies the AGO's estimate of total amount of DSIP expenditure from the commencement of the Program (February 2008) to 30 June 2010; and
2. reports on the results of thirty (30) District audits of DSIP expenditure covering the period February 2008 to 30 June 2010.

#### Background to the DSIP

In 2007, the Government allocated K10 million to each of the 89 Districts in Papua New Guinea for priority expenditure. This was allocated through the 2007 Additional Supplementary Budget, and the 2008 Financial Year Budget.

The Government's 2009 Budget included an allocation of a further K4 million so that each Districts received a total of K14 million to be used for the procurement of goods and services under the DSIP.

**In June 2008, the Secretary of Finance issued formal guidelines on the use of the DSIP Trust funds through Finance Instruction 3C/2008. These guidelines were to supersede all previous instructions.**

The initial allocation of K10 million was to be spent on infrastructure rehabilitation maintenance projects with an allowance of 3% for administration. The projects under DSIP are required to comply with the program financial allocation as shown in *Table 1*.

**Table 1: Allocation of DSIP Funds**

District Services Improvement Program	Approved Allocation	Less 3% Administration Fund	Actual Allocation Available
Education	K1,000,000	K30,000	K970,000
Health	K1,000,000	K30,000	K970,000
Law and Justice	K1,000,000	K30,000	K970,000
Water Supply and Sanitation	K1,000,000	K30,000	K970,000
Agriculture and Community Based Programs	K1,000,000	K30,000	K970,000
Rural Communication and Electrification	K1,000,000	K30,000	K970,000
Transport and Community Infrastructure	K4,000,000	K120,000	K3,880,000
	<b>K10,000,000</b>	<b>K300,000</b>	<b>K9,700,000</b>

## **Audit Objective**

The audit objective was to conduct a compliance review of how Districts were complying with the Finance Guidelines specifically Circular 3C/2008 and to determine how efficiently and effectively Districts were managing the DSIP funds allocated to them.

Specific Objectives were to ascertain:

- (i) Whether DSIP expenditure allocated to projects under each of the designated programs were in accordance with Finance Instruction 3C/2008;
- (ii) compliance with other relevant legislative requirements, regulations and local policies;
- (iii) The effectiveness of Internal control over key processes; and
- (iv) Whether goods and services have been actually received by the District as a result of the expenditure.

## **Audit methodology and focus**

### *Audit methodology*

Prior to the AGO commencing its specific DSIP 2008, my audits of District expenditure had previously been conducted at the end of a financial year or in the case of donor funded projects, after the funds had been spent.

However, in the case of DSIP expenditure, I considered it to be more value-adding to the implementation process, to conduct audit reviews during the course of the program.

The significant amount of funds allocated to each District under the DSIP, represents a major risk to government that it's intended DSIP goals and objectives will not be met.

The audit process included my audit staff visiting thirty (30) Districts, to assess, discuss and observe how DSIP funds are being managed. District Management were provided with an opportunity to respond to the findings and recommendations for improvement. The AGO considers this as an important process so that Management's views are taken into account in arriving at an objective and balanced opinion. However, at the time of preparing this Report, only two (2) of the thirty (30) Districts audited, had responded to the audit findings despite providing them with more than adequate time to respond.

Given the importance of providing a timely report to Government, I decided to publish the findings in this Report without the management comments, waiting for management comments, thus providing stakeholders with an opportunity to take timely action.

## Scope

The audit scope included a review of DSIP funds in thirty (30) Districts.

At the time of the audits, these Districts had spent between K3.7 and K16.3 million of the DSIP funds that were allocated to them between February 2008 and June 2010.

## Findings

Overall the audit identified the following findings in relation to the audit of DSIP expenditure:

The total amount of funds allocated by the Government to the 89 Districts as at 30 June 2010 was K1.246 billion. However, the verification of actual funds in bank statements identified that only K1.071 billion had actually been deposited or accounted for.

The difference between the amount the Government had allocated to each District and amount deposited in the Trust Accounts is shown in the following Table:

**Table 2 - DSIP Revenue Appropriation Deposited**

Number of Districts	Amount deposited in Trust Account	Total
2	16,000,000.00	32,000,000.00
4	14,000,000.00	56,000,000.00
1	13,500,000.00	13,500,000.00
25	13,000,000.00	325,000,000.00
1	12,954,968.87	12,954,968.87
1	12,590,646.00	12,590,646.00
40	12,000,000.00	480,000,000.00
1	11,000,000.00	11,000,000.00
1	10,300,000.00	10,300,000.00
5	10,000,000.00	50,000,000.00
1	9,999,968.06	9,999,968.06
3	9,000,000.00	27,000,000.00
1	8,970,000.00	8,970,000.00
2	8,000,000.00	16,000,000.00
1	6,000,000.00	6,000,000.00
<b>89</b>		<b>1,071,315,582.93</b>

### ➤ Other funds placed in the DSIP Trust Accounts

The AGO noted that some funds **other than DSIP funds** totaling **K72.12 million** had been credited to the DSIP Trust Accounts which was not consistent with generally accepted Trust Account procedures giving rise to potential misappropriation and fraud.

**The purpose of Trust Accounts is that they should only be used for the purpose for which they are established.**

Desktop monitoring of the accounts by the Department of Finance, through the perusal of bank statements should show if funds, other than Government allocations and interest, have been deposited into the accounts and any anomalies corrected timely. The proper monitoring of expenditure requires more than an examination of the bank statements.

The establishment of a rigorous regulatory framework by the Departments of Finance and Treasury as envisaged in the Finance Instruction and Central agency representatives in the Districts would highlight details of funds used on non DSIP related expenditure and allow corrections to be made quickly.

➤ **Expenditure**

DSIP expenditure as at 30 June, 2010 was K760 million excluding bank fees of K764,725 for the 89 Districts.

**Key findings – Against Audit objectives**

The generalised audit findings from thirty (30) Districts audited in relation to the for (4) audit objectives are provided below. (Note that detailed audit findings are included in Part 2 of this Report).

**Objective 1: To confirm that the DSIP funds have been allocated to projects in designated programs in accordance with Finance Instruction 3C/2008**

Finance Instruction 3C/2008 requires:

- Districts, through their respective Joint District Planning & Budget Priorities Committee (JDP&BPC), **to be responsible for identifying projects and to develop or be processing a prioritized list of proposed projects to be funded by the DISP.**
- **DSIP expenditure to be allocated to projects within designated Programs** (refer Table 1 earlier). The JDP&BPC is responsible for the identification, consideration and prioritization of projects and budgets.
- **Projects to be in line with the District's Five Year District Development Plan.** A District may spend outside the approved allocation for a particular program with the approval of its JDP&BPC.
- **Districts to liaise with Provincial Works Managers** to ensure project scoping and design are in accordance with Government works standards.

**Objective 2: Confirm that the administrative requirements of Finance Instruction 3C/2008 and other finance instructions have been complied with.**

**Finance Instruction 3C/2008 is a detailed set of Guidelines for the administration of the DSIP.** Its principles include the consultative approach to service delivery involving all stakeholders.

The Finance Instruction expects village communities to participate directly in the implementation of the Program and Provincial and Local Level Governments to drive the DSIP in their respective provinces.

One of the big risks of this Program is the provision of funds directly to the District where the management infrastructure might not be adequate to manage such funds appropriately.

The Finance Instruction recognized this and provided a series of controls to ensure that the funds are spent appropriately and in accordance with Government procedures and legislation.

**Two of the important DSIP planning controls are;**

- (i) the requirement for the JDP&BPC to prioritize and approve projects and to oversee the District planning process,
- (ii) for the Provincial Supply and Tenders Boards (PSTB) to invite tenders for the purchase of goods, works and services that cost between K300,000 and K3 million.

As the AGO found in the previous audits, these controls were being violated.

Various construction and maintenance projects each valued over K300,000 were not subject to a Provincial Supply & Tenders Board process nor did they have the Authority to Pre-Commit (APC) duly signed by the Secretary of Finance.

Failure to obtain properly approved and authorized APC could render any contract entered into between the Districts and the contractors as illegitimate and effectively null and void.

**Accounts and Records**

Under the Public Finance (Management) Act and Finance Instruction 3C/2008, Districts are required to maintain proper accounting records and documents.

The AGO found that, generally, most of these Districts are not maintaining proper accounts or records.

**Objective 3: Confirm that expenditure is on items permitted by the Finance Instruction 3C/2008**

**Finance Instruction 3C/2008 requires DSIP funding to be spent on infrastructure rehabilitation and maintenance.**

The AGO identified that a major part of DSIP expenditure in the Districts audited was for various categories of program expenditure approved under DSIP. However, the audit identified that a majority of the funding was disproportionately used to purchase vehicles and/or heavy earthmoving equipments.

The AGO raised its concern in its previous DSIP report that the AGO was unsure whether the Department of Finance's Instructions implied the use of DSIP expenditure specifically for heavy earthmoving equipment or earthmoving vehicles, as part of the seven programs funded under the DSIP. Some cost benefit analysis should have been conducted relative to the amount of funds and intended outcomes.

However, the AGO recognizes that reliable vehicles are essential for the delivery of goods and services to the people in rural PNG and that heavy equipment is required to maintain roads. In the absence of any other funding, the use of DSIP funds may be appropriate but Department of Finance should have clarified whether the purchase of heavy earthmoving equipment and vehicles met the intent of the Finance Instruction which required that projects fall within the seven specified programs.

The purchase of capital equipment, such as vehicles and earthmoving equipments brings with it other recurrent and flow on costs, such as fuel, spare parts, maintenance and in the case of earthmoving equipments, specialized drivers or operators. It is not clear that this had been carefully factored in. As a result, Districts may have obligations for future commitments which they had not foreseen. As such, poor maintenance or lack of servicing may result in potential waste of expenditure.

If these costs are not factored in into the annual budgets, the equipment will lose its effectiveness over the years as they fall into the disrepair or higher maintenance costs. District Administrators should seek Treasury advice on the flow on cost on District recurrent budgets and its impact.

**Objective 4: Confirm that goods and services have been received as a result of the expenditure**

For a number of reasons, the AGO was unable to determine whether all the goods and services that had been paid for, had been delivered and were of the standard required.

**Overall Conclusion**

- Whilst, overall, the District planning for the procurement of goods and services under the DSIP appeared satisfactory, overall, it was identified that Districts had not fully complied with the requirements of Finance Instruction 3C/2008 and other relevant instructions.

- **The purchase of vehicles by Districts may be disproportionate to the overall DSIP funding. Clearly there is a need for clarity over how vehicle purchases can be categorized as infrastructure, rehabilitation and maintenance.** Some form of a cost benefit analysis needs to be conducted with a view to ensuring that DSIP goals and objectives are attained and waste of government funding is minimized.
- **The lack of management controls including poor record keeping by Districts prevented the AGO from determining whether all expenditure was utilized for intended purposes** or not, or whether goods and services had been received as preplanned.
- **The AGO concluded that some of the government entities responsible for assisting Districts in properly planning expenditure, reporting and monitoring progress, had not fully met their statutory obligations.** In particular, the lack of an internal audit programs to effectively monitor the use of the DSIP funds is a critical weakness in the DSIP structure and is contrary to the Finance Instructions for the management of DSIP. This must be given priority immediately, critically before any further DSIP funds being released.
- **The DSIP is an innovative government initiative intended to improve district infrastructure.** However, the custodian of the DSIP programs must take greater ownership by exercising greater diligence and care by ensuring that there are appropriate management controls are in place which ensure that planned District goals and objectives are met and to prevent potential mismanagement of projects, misappropriation, wastes or fraud.
- **Status of Audits conducted.** A total of fifty two (52) DSIP audits were planned for the year. However, due to both man power shortages and logistic issues, this Office was limited to the audits of the DSIP expenditures in only forty one (41) of the planned audits.

Status of the DSIP is as follows;

Regions	Highlands	Southern	Momase	NGI	Total
Planned DSIP Audits	18	12	13	9	52
Management Letters Issued	10	9	7	7	33
ML in progress	5		1	2	8
Audits yet to be done	3	3	5	-	11

As these DSIP audits are progressively undertaken, there is no cut off period for these audits. These vary from District to District depending on when the audit team visits the Districts.

## **Summary of Findings**

### **6.1.0 GUMINE DISTRICT**

The audit of the Gumine District was carried out for the period commencing February 2008 to July 2009. The audit findings are structured around the audit objectives described earlier.

(a) District Development Plan

The Gumine District's Five Year District Development Plan was not furnished to this Office. As such, it was not possible to determine if projects undertaken by the District were consistent with the District Five Year District Development Plan.

(b) Receipts

As at 31 July 2009, the Gumine District had received K8.2 million DSIP grants. This included K200,000 that was received from the Department of Rural Development & Livestock.

(c) Payment of accounts

Total DSIP expenditure by the District during the period under review was K7.8 million. Of this, K3.6 million was spent in 2008 while K4.2 million was spent during the first seven months of 2009.

- The Gumine District had incurred expenditure in excess of K70,339 over and above the allowable amount for Administration Program cost.

Total appropriation for the purpose of financing administrative cost over the five (5) year period is K300,000.

- Formal approval from the JDP&BPC for the District to incur K1,264,855 against an approved allocation of K970,000 under the Agriculture Program was not sighted by the auditors.
- Expenditure totaling K877,239 were incurred and charged against the Education program. Of this, expenditure totaling K544,900 was not related to education infrastructure or education related activities.
- Similarly, several payments totaling K264, 495 posted under the Health Program were made for purposes other than health related activities such as purchasing of a full set of rugby jerseys, panel beating and spray painting of vehicles and others which are not related to Health activity.



- In 2009, expenditure totaling K150,000 which was not agricultural related was charged under the Agriculture Program. Examination of the 2009 cash book revealed that five cheques were paid to several individuals for the launching of the DTIP program in the District. This contravenes *Finance Instruction 3C/2008*.
- No tangible developments were sighted for the payment of K200,000 that was paid to PNG Power Ltd to extend the supply of electricity from Moromaule to Gumine under the Communication & Rural Electrification Program.
- Provincial Supply & Tenders Board approvals for the purchase of several heavy equipments valued at over K3.5 million under the Transport & Community Infrastructure program were not sighted by the auditors.

In the case of the purchase of these heavy earth moving equipments, the District raised payments directly to the Bank of South Pacific- Kundiawa for bank cheques to be made payable to the suppliers. In the absence of most of the payment vouchers for these payments, this Office was unable to verify whether bank cheques were made payable to the suppliers or whether the correct amounts were raised.

- An amount of K10,000 was paid to a police constable to carry out a fraud investigation. It was not disclosed to audit which fraud case this constable was investigating or what the outcome or result of this investigation was.

(d) JDP&BPC Meetings

Minutes of meetings held by the JDP&BPC and resolutions passed were not made available to audit.

In the absence of the meeting minutes and resolution passed, this Office is unable to comment how the approval of projects, including the identification, consideration and prioritization of projects were assessed.

(e) Monthly Management Reports

No monthly management reports were produced by the District.

This Office could not determine the total number of projects that were initiated to be funded under the DSIP and on how many of these projects, work had actually commenced.

(f) Project Proposals

Project proposals for all the projects that were implemented were not available or sighted by audit. It was not possible to determine the individual cost of each of the projects and to verify whether these projects were within the approved standard design.

(g) Works Contracts

Minor Works Contracts for projects valued at over K50,000 were not made available. Various different contractors were engaged during the period under review. However, it is not known whether Minor Works Contracts were entered into with these contractors prior to their engagements.

(h) Assets Management

The District did not maintain an assets register for the period under review. The existence and ownership of various different assets including motor vehicles, machineries, and other equipments purchased at the cost of more than K3.5 million during the period under review could not be traced to any record.

All heavy equipments purchased were registered under 'Gumine Development Corporation'. Information regarding the registration of this corporation with the Investment Promotion Authority (IPA) were not made available. This Office is unable to determine who the directors of this corporation are and what type of activities this corporation was responsible to carry out.

## **6.2.0 CHUAVE DISTRICT**

The audit of Chuave District was carried out for the period commencing February 2008 to July 2009. The audit findings are structured around the audit objectives described earlier.

(a) Receipts

DSIP funds were allocated to projects in accordance with *Finance Instruction 3C/2008*. As at 31 July 2009, the Chuave District had received K8.2 million DSIP grants. This includes K200,000 that was received from the Department of Rural Development & Livestock.

(b) Payment of Accounts

Total DSIP expenditure by the District during the period under review was K4.8 million. Of this, K2.9 million was spent in 2008 while K1.9 million was spent during the first seven months of 2009.

Trust Transaction Detail Ledgers for the period ended 31 July 2009 were not made available to audit.

Examination of the 2008 trust ledgers and the 2009 cash book identified the following:

- In 2008, a payment of K2 million was paid into the Road Maintenance & Upgrading Sector Project Trust Account maintained in Port Moresby as counterpart funding for the Keu –Mongoma – Movi road upgrading and sealing. At the time the AGO visited the site, there was no major work that had commenced.
- Total appropriation for the purpose of financing administrative cost over the five (5) year period is K300,000. However, the District had overspent by more than K17, 584 under the Administrative program cost. Any additional expenditure charged to this program in future will result in further over expenditure.
- A total of K329,000 was paid to a paying officer as payment for day laborers engaged for road side clearings from Monega to Mainero and Komo to Karando. There is no evidence to show that the individual laborers were paid although the cheques for the value of K329,000 were cashed. Also, the supporting payment vouchers with details of those who were supposed to have been engaged for the road maintenance were not provided. As such, this Office is unable to determine the authentic and the correctness of these payments.

(c) Project Status Reports

Between February 2008 and July 2009, several projects were initiated to be funded under six of the seven DSIP programs.

No Project Status Reports were produced by the District.

(d) Works Contracts

Minor Works Contracts for projects valued at over K50,000 were not made available to audit. Various different contractors were engaged during the period under review. These included a works contract that was awarded to Goroka Builders Ltd as mobilization cost for the maintenance of the Chuave District Hospital for which an amount of K275,020 was paid. It was also noted during the time of the audit visit that work had not commenced yet.

(e) Assets Register

The District did not maintain an assets register for the assets that were purchased during the period under review. As such, the existence and ownership of the various different assets including motor vehicles and other equipments purchased at the cost of more than K0.5 million could not be verified.

(f) Procurement Procedures

Proper procurement procedures were not followed by the District. Competitive quotes for provision of the same services were not obtained from other potential suppliers.

### **6.3.0 KEROWAGI DISTRICT**

The audit of Kerowagi District was carried out for the period commencing February 2008 to July 2009. The audit findings are as follows;

(a) District Development Plan

A copy of the Five Year Development Plan for the Kerowagi District was not provided to this Office. Without such a vital document, this Office is unable to determine whether the projects undertaken by the District were approved prioritized projects consistent with the District's Plan.

(b) DSIP Funds Receipts

As at 31 July 2009, the Kerowagi District received a total of K8.2 million during the period under review. This included K200,000 that was received from the Department of Rural Development & Livestock.

(c) DSIP Expenditure

Total DSIP expenditure of K6,162,093 was charged against seven of the eight(8) programs in which K1,529, 674 was spent in 2008 while K4,632,446 was spent in 2009.

- Examination of the transaction ledgers revealed that various payments such as, vehicle hire, purchase of airline tickets, personal financial assistance, funeral assistance, payment of casual labours and etc were charged and paid to the various programs. These included a large payment of K446,461 to an individual for a launching program which was charged against several different DSIP programs.
- Two payments totaling K100,000 were paid to an individual as part of an advance for the DSIP Project Launching and charged to the Education Program. This represents about ten percent (10%) of the total funds allocated under the Education Program. The DSIP launching cost is not related to the Educational Program.

Furthermore, acquittals were not made available to show how these DSIP funds were disbursed.

- Amounts totaling K33,498 were paid to traditional landowners for the acquisition of land and for improvements for a new health centre. Copies of the land title were not furnished to this Office. No documentation had been provided to show how the value of this land was determined and paid for.
- In April, 2009, an amount of K75,000 was paid to a local tailoring company for the supply of uniforms for the peace and village court officials. According to a statement signed by the principal of a tailoring company, she was asked to return the funds back to the District Treasurer. In a signed statement, she claims to have repaid K65,300 in cash to District Treasurer.

Examination of the bank statements and records indicated that these funds were never deposited back into the District account.

- Of the total K448,295 incurred under the Agriculture Program, K200,000 was paid to an officer as cash advance in four lots of K50,000 for a DSIP launching in the District. It is not clear why this launching celebration was charged against the Agriculture Program. Furthermore, acquittals from the officer who received the K200,000 were not made available to the auditors.
- A total of K863, 210 was paid to a private company to facilitate payment of day labours, engaged on roads maintenance and clean up of various roads in the District. The following were noted;
  - It is not understood how and why this company was engaged to supervise and facilitate in the cleanup projects. This company was recently incorporated with the IPA on the 27<sup>th</sup> of August 2008 and does not appear to have any prior experience as a management company.
  - There were no work contracts available for the engagement of this company.
  - There was no proper supporting documents showing information such as; the number of labours engaged, the rates charged for each laborer, time and duration of each engagement. Site inspection reports, if any, were not attached to payment vouchers.
- A payment of K75,000 was paid to the Mt Wilhelm Tourist Hotel for training to be conducted on village courts and peace mediation. It is understood the actual training did not take place. This Office is unable to confirm whether the funds were refunded to the District by the hotel.

- Three payments totaling K73,102 which were charged to and paid for under the education program were for expenses which did not relate to education cost.
- A total of K162,279 was paid to a private contractor for the renovation and completion of the incomplete new Kerowagi Police Station building initiated by the former member for Kerowagi. Physical verification by audit revealed that this building was still at an incomplete stage although monies were paid.

Documents relating to minor works contracts entered into and Project Inspection Reports were not furnished to audit.

(d) Assets Register

The District did not maintain an assets register. The existence and ownership of the various assets including motor vehicles, machineries, computers and other equipments purchased at a total cost in excess of K3 million under the DSIP during the period under review could not be verified.

(e) Monthly Bank Reconciliation

No bank reconciliation statements were prepared for the eleven (11) months (ie, February to December) of 2008. Also, the monthly bank reconciliation statements for the months of January 2009 to June 2009 were not furnished to this Office for examination.

(f) Monthly Management Reports

Under Finance Instruction 3C/2008, District Administrators are required to provide monthly management reports on the physical and financial status of the District's DSIP funded projects to their respective JDP&BPC and the ORD. There was no evidence that such monthly management reports are produced by the District.

This Office could not determine the total number of projects that were initiated to be funded under the DSIP and how many of these projects had actually commenced.

(g) Works Contracts

Various different contractors were engaged during the period under review. However, Minor Works Contracts for projects valued at over K50,000 were not made available. This included a works project that was awarded to J Bee Construction for the road maintenance work from Kerowagi station to Bogo-Kawa for which an amount of K169,818 was paid. It was also noted during an audit visit that work had yet to commence.

#### **6.4.0 SINASINA YONGOMUGL DISTRICT**

The audit of Sinasina Yongomugl was carried out for the period commencing February 2008 to July 2009. The audit findings are as follows;

(a) District Development Plan

A copy of the Five Year Development Plan for the Sinasina Yongomugl District was not provided to this Office. Without such critical document, this Office is unable to determine whether the projects undertaken by the District were approved prioritized projects consistent with the District's Plan.

(b) DSIP Funds Receipts

As at 31 July 2009, the Sinasina Yongomugl District received a total of K8.2 million during the period under review. This included a K200,000 that was received from the Department of Rural Development & Livestock.

(c) DSIP Expenditure

Total DSIP expenditure of K2.76 million was charged against seven of the eight (8) programs during the period under review.

Examination of the transaction ledgers revealed the following;

- In the absence of the payment vouchers, this Office is unable to determine the type and scope of work carried out by a management company for which payment of K247,780 was made. Management reports, if any, produced by this management company were not made available to the auditors.
- An amount of K100,000 was paid to an individual for mediating a tribal conflict. The breakup of amount disbursed to these warring tribes and acquittals were not sighted. This Office was unable to determine whether the funds were used for the intended purposes.
- Ex-gratia payments totaling K40,000 were paid to several individuals during the period under review. DSIP funds are meant to be used specifically for projects and not to be paid out as such to individuals.
- Amounts totaling K76,000 were paid to an officer for a emergency and disaster operation in 2009. The JDP&BPC approval for this payment was not made available. Further, there were no acquittals sighted to show how these funds were disbursed.

(d) Assets Management

The District did not maintain an assets register during the period under review. As such, this Office could not verify the existence and ownership of heavy equipment, motor vehicles, dump trucks and office equipment valued at over K1.7 million purchased by District.

(e) JDP&BPC

Minutes of all JDP&BPC meetings held in 2008 and 2009 were not provided to this Office. It is of requirement that meeting minutes are properly maintained to assess the effectiveness and functionality of the committee and the proceedings of the meetings.

(f) District Planning Management Team

Minutes of all DPMT meetings held in 2008 and 2009 were not provided to this Office.

In the absence of the minutes, audit could not determine if most of the projects that have been implemented were properly screened and endorsed by DPMT.

(g) Minor Works Contracts

Signed contract agreements for the various minor works and maintenance contracts that were undertaken during the period under review were not made available to this Office.

(h) Monthly Management Reports

Under Finance Instruction 3C/2008, District Administrators are required to provide monthly management reports on the physical and financial status of the District's DSIP funded projects to their respective JDP&BPC and the ORD. No monthly management reports are produced by the District.

### **6.5.0 OKAPA DISTRICT**

The audit of Okapa District was carried out for the period starting February 2008 to July 2009. The audit findings are as follows;

(a) DSIP Funds Receipts

As at 31<sup>st</sup> July 2009, Okapa District received a total of K4 million during the period under review.

(b) DSIP Expenditure

Total DSIP expenditure of K2 million was charged against seven of the eight (8) programs during the period under review.



- The District had already charged to and spent over K289,000 to the Administration Program cost. Under *Finance Instruction 3C/2008*, only K300,000 was to be spent as Administration cost. Any additional expenditure charged to this Program will result in over expenditure.
- An amount of K27,863 was paid to a firm for consultancy services provided. The type of services provided and a copy of any report produced by the consultant was not provided to this Office.

Furthermore, the contract agreement determining the terms of engagement were not made available.

There were no approval and/or endorsement from the JDP & BPC for payments made to various consultants during the period under review.

- Audit noted several cash advances paid to an individual were not properly acquitted. Proper documentation such as receipts and invoices to determine whether the funds were used for the intended purposes were not sighted by this Office.

(c) Monthly Reports

The District Administration had not submitted monthly management reports on the physical and financial status of the District's DSIP projects to its JDP&BPC and the ORD as required.

(d) Fixed Assets Register

The Okapa District did not maintain a register for all the fixed assets that were purchased under the DSIP as required by the *Public Finances (Management) Act, 1995*. Consequently, this Office could not verify the existence or ownership of motor vehicles and equipment worth over K1.1 million purchased during the period under review.

Failure to maintain such records and documents is a breach of Section 102 of the Organic Law and the *Public Finances (Management) Act 1995*.

(e) Works Contracts

Various different contractors were engaged by the District during the period under review. However, the minor works contracts entered into between the District and the contractors for all projects valued over K50,000 were not made available to the auditors. These included a works contract that was awarded to an individual contractor for architectural design of the District office complex. The Contract Agreement determining terms of engagement, contract value, agreed architectural design and scope of work were not made available to this Office.

### 6.6.0 KAINANTU DISTRICT

The audit of Kainantu was carried out for the period commencing February 2008 to July 2009. The audit findings are as follows;

(a) DSIP Funds Receipts

As at 31 July 2009, the Kainantu District received a total of K8.2 million for the period under review. This included K200,000 that was received from the Department of Rural Development & Livestock.

(b) DSIP Expenditure

Total DSIP expenditure of K2.84 million was charged against six (6) of the eight (8) programs during the period under review.

- In the absence of trust ledgers, this Office was unable to determine, except for the Administration Program cost, under which of the seven approved programs payments were charged to.
- The District had spent more than the amount allowed for under the Administration Program.

Under *Finance Instruction 3C/2008*, District are required to spend only up to K300,000 under the Administration Program for the complete funding of K10 million.

Approval to spend over and above the approved allocation was not sighted.

- Several payments select for further audit verification were not properly certified.
- Some of the payments were noted to have been raised without the required three (3) written quotations.
- Contract agreements, inspection reports, and completion certificate reports were not sighted in relation to several payments made to various contractors.

(c) JDP & BPC Meeting Minutes

Minutes of all JDP & BPC meetings convened during the period under review were not made available to this Office. In the absence of these meeting minutes, this Office could not be verify or ascertain whether the projects undertaken by the District were properly endorsed and approved by the JDP & BPC.

(d) Monthly Reports

District Administration did not provide monthly management reports on both the physical and financial status of the District's DSIP projects to the respective JDP&BPC and the ORD as required. In the absences, it could not be ascertained if the District Administration produced such reports during the period under review.

(e) Fixed Assets Register

A Fixed Assets register was not made available to this Office. It appears a Fixed Assets register was never maintained by the District. In the absences of such a register, this Office is unable to verify the various assets purchased during the period under review. This included the purchase of several motor vehicles and accessories valued at K421,055.

(f) Journal Entries

Funds totaling K103,545 transferred from Law & Justice Program to Administration Program and K94,864 was transferred from the Agriculture Program to Transport Program. However, JDP&BPC's endorsement and approval of the transfer of funds were not sighted.

(g) Minor Works Contracts

This Office noted instances where Contract Agreements were signed after the Completion Certificates were issued. In some cases, no contract agreements were signed between the District and the contractor.

#### **6.7.0 HENGANOFI DISTRICT**

The audit of the Henganofi District was carried out for the period commencing February 2008 to December 2009. The audit findings are structured around the audit objectives described earlier.

(a) Five Year Development Plan

The copy of the Five Year District Development Plan signed by the Open Member and the District Administrator was not made available to this Office.

(b) DSIP Payments

Total DSIP expenditure by the District during the period under review was K8.43 million.

Examination of the trust ledgers and cash book for the period under review revealed the following:

- Supporting payment vouchers relating to several payments totaling over K550,000 selected for audit examination were not produced to audit. Consequently, the authorization, legality and whether proper documentations supporting the payments could not be determined.
- Payments totaling over K2.2 million paid to various suppliers and contractors of goods and services did not have proper supporting documentations such as suppliers' invoices. Consequently, this Office was unable to verify the correctness and validity of these transactions.
- Evidence of receipts of goods such as, delivery dockets and goods received notes were not sighted in relation to payments totaling over K1.6 million paid to various suppliers for the procurements of goods such as building materials, agricultural materials and stationery supplies. This Office is unable to determine whether these goods were actually delivered in correct quality and quantity as intended.
- Supporting documents detailing listings of the individual recipients along with the costing and type of materials delivered to local farmers, poultry breeders and coffee growers in relation to payments totaling over K1.5 million paid to a company were not sighted by this Office. This Office was unable to verify the correctness and validity of the program transactions.
- Amounts totaling K932,105 were noted to have been paid to various consultants and contractors for various infrastructural projects in the District. However, the contract agreements defining the terms of engagement in relation to scope of works to have been undertaken, were not made available for verification. In the absence of contract agreements and proper supporting documentations, this Office was unable to verify the correctness and validity of these payments.

(c) Assets Register

The Assets register furnished to this Office was incomplete and did not include details of most of the recent assets purchased during the period under review. Consequently, this Office is unable to verify the existence and ownership of motor vehicles, dump trucks, heavy equipments and office equipments valued at over K2.3 million purchased by DSIP funds for the years under review.

(d) Minor Works Contracts

Contract Agreements defining the terms of engagement in relation to scope of works undertaken by the various contractors was not made available for verification.

Minor works and maintenance works were undertaken during the years under review and were noted to be unsatisfactory.

(e) JDP&BPC Meeting Minutes

Complete minutes of all JDP&BPC meetings held during the period under review were not furnished to this Office.

(f) DPMT Meeting Minutes

Minutes of DPMT meetings held during the period under review were not provided to this Office. In the absence of these meeting minutes, this Office could not verify whether project undertaken by the District during the period under review were properly screened and monitored by DPMT.

(g) Bank Reconciliations

Completed monthly bank reconciliation statements were not furnished to this Office. The monthly bank reconciliations statements made available to this Office were not certified by the preparer and the reviewer to authenticate the accuracy of the reconciliations. As such, this Office could not confirm the accuracy and the validity of the bank reconciliations or the closing balance of the DSIP subsidiary account.

As outlined in Section 16.4 of the *Finance Instruction 3C/2008*, Districts are required to prepare bank reconciliation statements and to send copies of these monthly bank reconciliations to the Department of Finance.

Failure to maintain such records and documents is a breach of the *Public Finances (Management) Act*, the Finance Instruction and the DSIP Administrative Guidelines.

### **6.8.0 LUFA DISTRICT**

The audit of Lufa District was carried out for the period commencing February 2008 to July 2009. The audit findings are as follows;

(a) District Development Plan

A copy of the Five Year Development Plan for the Lufa District was not provided to this Office. Without such a critical document, this Office is unable to determine whether the projects undertaken by the District were approved prioritized projects in line with the District's Plan.

(b) DSIP Fund Receipts

As at 31 July 2009, the Lufa District received a total of K10.2 million during the period under review. This included a K200,000 that was received from the Department of Rural Development & Livestock.

(c) DSIP Expenditure

Examination of the transaction ledgers revealed the following;

- Payment vouchers relating to ten (10) payments totaling K370,070 were not provided to this Office for verification. Consequently, the authorization, legality and whether proper documentations supporting the payments could not be ascertained.
- This Office noted instances of payments totaling over K5.6 million which were made without any evidence or proof that they had been made with the approval and endorsement of JDP & BPC. Consequently, proper authorization and legality supporting the payments could not be ascertained.
- Amounts totaling over K1.6 million were noted to have been paid to various suppliers and contractors for goods and services. However, proper supporting documentations were not made available to audit to verify the correctness and validity of these transactions.
- Funds totaling K3,990,748 were noted to have been paid to various consultants and contractors for various infrastructural projects in the District. Contract Agreements defining the terms of these engagements were not provided to this Office. As such, this Office was unable to verify the correctness and validity of these payments.
- Payments totaling K74,619 were noted to have been made to various beneficiaries as financial assistance to carry out economic activities in the District. The JDP & BPC approval for these payments were not sighted. Furthermore, accountability statements from the recipients of these financial assistance were also not provided to ascertain whether these funds were used for the intended purposes.
- Certificates of completion certified by the appropriate authorities were not sighted in relation to payments totaling K935,318 paid to eight (8) contractors in respect of eleven (11) completed contracts. As such, this Office is unable to establish whether the works that had been carried out and completed were of quality standards or value for money.

The risk associated with such practice is that payments could be made to contractors who had carried out work with minimum quality or poor standards.

(d) Monthly Reports

The District Administration had not submitted monthly management reports on the physical and financial status of the District's DSIP projects to its JDP&BPC and the ORD as required.

Project progressive reports from competent building engineers to verify project implementation and status of work performed was not produced. As a result, this Office is unable to establish whether these services were actually rendered with proper assessment and evaluation. This exposes the District Administration to the risk that proper assessment and evaluation procedures may be avoided to facilitate fraudulent activities.

(e) Fixed Assets Management

The fixed assets register made available to audit was incomplete. Not all the assets purchased during the years under review were recorded in the register. Consequently, this Office is unable to verify the existence and ownership of motor vehicles, dump trucks and equipment valued at over K690,000 purchased by DSIP funds during the years under review.

(f) Minor Works Contracts

Signed minor works contracts for the various works contracts undertaken by the District during the period under review were not made available to the auditors. Payments were made without proper documentation and financial delegate signatures.

Proper records were not maintained and kept in relation to the works contracts undertaken by the District during the period under review.

(g) Bank Reconciliation

Monthly bank reconciliation statements prepared during the period under review were not made available for audit verification.

In the absence of the monthly bank reconciliation statements, this Office was unable to ascertain and verify the correct closing balances at the bank.

(h) JDP&BPC Meeting Minutes

Minutes of all JDP&BPC meetings held in 2008, 2009 and 2010 were not provided to this Office. It is a requirement that meeting minutes are properly maintained to authenticate the effectiveness and functionality of the committee and the proceedings of the meetings.

(i) DPMT Meeting Minutes

Minutes of all District Planning Management Team (DPMT) meetings held in during the period under review were not provided to this Office.

In the absence of the minutes, this Office could not determine if most of the projects that have been implemented were properly screened and endorsed by DPMT.

Failure to maintain such records and documents is a violation of the *Public Finances (Management) Act*, the Finance Instruction and the DSIP Administrative Guidelines.

### **6.9.0 MAPRIK DISTRICT**

The audit of Maprik District was carried out for the period commencing February 2008 to June 2010. The audit findings are as follows;

(a) Five Year District Development Plan

A copy of the District's Five Year District Development Plan sighted by the auditors was not signed by both the Open Member and the District Administrator.

(b) DSIP Receipts

Examination of cash book and the bank statements revealed that the Maprik District had received a total of K17.2 million during the period under review. These include the DSIP funds of K12 million, a Special Hospital Grant of K5 million and K200,000 from the Department of Agriculture and Livestock which was allocated under the Agriculture Program.

Interest of K30,323 was earned from the bank during the period.

(c) DSIP Expenditure

Total DSIP expenditure by the District during the period under review was over K10.1 million. Of this, K368,936 was spent in 2008, K5.92 million was spent in 2009 and K3.85 million was spent during the first six (6) months of 2010.

Examination of the trust ledgers and cash book for the period under review revealed the following:

- In several cases, payments were paid without being examined. For internal control purposes, all payments must be properly examined and certified before approval is given for processing.



- Payments totaling K15,000 were raised for airfares and accommodation for an overseas trip which had no relevance to the implementation of the DSIP. This is a misuse of DSIP funds.
- Payment in excess of K130,000 was paid to a private company without the evidence or proof that service had been provided. This payment was made in relation to project design work for the Maprik District Hospital. However, no such documentation was sighted nor made available to this Office.
- The JDP&BPC at one of its special meeting held in 2009 had approved the engagement of private consulting firm to manage all the projects undertaken by the District during the period under review. This included project scoping, designing, implementation, inspections and monitoring of all projects in the District, thus, carrying out the responsibilities of the DPMT. Copies of reports produced by the firm to the JDP&BPC were not made available for inspection to this Office.

This is also a conflict of interest; as the same consulting firm was also engaged in the constructing of projects and at the same time managing (inspecting and reporting) on the progress of the projects.

Furthermore, while the District had its DPMT, it is not understood why it was necessary to engage consultants to supervise all the projects in the district.

- Amounts totaling K170,050 were paid as financial assistance to various individuals during the period under review. DSIP funds are to be used for projects and can not be given out as financial assistance. This is a breach of the requirements of *Financial Instruction 3C/2008*.

(d) JDP & BPC Meeting Minutes

The complete minutes of the JDP&BPC meetings held in 2008, 2009 and 2010 were not provided to this Office. As such, this Office could not determine projects were properly identified, considered and prioritized consistent with the Five Year District Development Plan.

Meeting minutes should be properly maintained and made available to interested parties and to the auditors.

(e) DPMT Meeting Minutes

Minutes of all District Planning Management Team (DPMT) meetings held in during the period under review not provided to this Office. In the absence of the minutes, AGO could not determine if most of the projects that have been implemented were properly screened and endorsed by DPMT.

(f) Monthly Management & Project Progressive/Status Reports

Monthly Management and Projects Progressive Reports were not provided to this Office. In the absence of such reports, this Office could not verify whether the physical and financial status of the projects were monitored by the management.

Although, the Maprik District has a DPMT and had even engaged a consulting firm to manage the projects, no Monthly Management Reports or Projects Progressive Reports were produced to the auditors for review.

(g) Supply & Tenders Board

Supply and Tenders Boards approvals were not sighted for the payments of K1 million made to a private company for the construction of Mairawi to Sarakikim Road. Major procurement requires approval of the Supply and Tenders Board before contractual arrangements can be made. Failure to obtain properly approved Supply and Tenders Board approval will render any contract entered into as null and void.

(h) Cash Book and Monthly Bank Reconciliation Statements

The District did not prepare monthly bank reconciliation statements during the entire period under review. The cash book was also not properly maintained. Receipts were not posted regularly and on a timely basis.

(i) Fixed Assets Management

The District did not maintain a fixed asset register. The District had spent over K3.3 million to purchase various assets during the period under review. Without the proper assets register being maintained, Maprik District is exposed to the risks that it would not be able to keep track of all its assets and these assets can be misused or stolen.

### **6.10.0 WEWAK DISTRICT**

The audit of Wewak District was carried out for the period commencing February 2008 to June 2010. The audit findings are as follows;

(a) DSIP Receipts

Examination and analysis of cash book and bank statements revealed that a total of K16.2 million was received during the period under review.

This included an additional funding of K200, 000 that was received from the Department of Agriculture and Livestock which was allocated under the Agriculture Program.

(b) DSIP Expenditure

A review of Trust ledgers identified payments of K15,898,607 during the period under review.

Examination of a selected sample of payment vouchers revealed the following;

- The District had charged expenditures totaling K804,609 under the Administration Program for the period under review. This exceeded the approved allocation of K300,000 under the Administration Program by over K504,609. Approvals for the transfer of funds from other programs to the Administration Program were not provided.
- Payment vouchers for fifteen (15) payments totaling over K2 million selected for further audit verification was not made available to this Office.
- Provincial Supply and Tenders Board approval and copy of the Certificate of Inexpediency (COI) issued was not sighted for payments totaling over K1.6 million for the purchase of heavy equipment.
- In several instances, payments totaling K743,057 had been made and charged under the wrong program, resulting in over-commitment of funds allocated to the affected programs.

Approvals for the reallocation of the funds from one program to another by the JDP&BPC were not sighted.

- In several cases, the total payments for projects exceeding their approved project allocation. These projects included that of Wawat/Mandi Road, the Auxiliary Police Base – YC Wewak and Hawain Primary D/Classroom and Ablution block as noted below;

Project	Approved Allocation	Amount paid	Variance
Wawat/Mandi Road	K300, 000	K336,000	(K36,000)
Auxiliary Police Base – YC Wewak	K50,000	K104,360	(K54, 360)
Hawain Primary D/Classroom & Ablution Block	K150, 000	K229,999	(K79,999)

- A contractor engaged by the District was using an heavy equipment purchased by the District. This raises the questions over the capacity of the contractor engaged and the process in which this contractor was selected.
- Payments totaling K229,999 were paid to three different contractors for the construction of the Hawain Primary D/Classroom and Ablution Block. The project is still incomplete and additional funds were required to complete the project. This illustrates a break down in the procurement processes and raises questions of how contractors are selected, how contracts were awarded and the role of DPMT and consultants engaged to monitor and supervise projects.
- The District had spent a total of K244,896 on hire of vehicles and trucks for various purposes during the period under review. It is not understood why the District is hiring vehicles when they have purchased so many vehicles. Funds needed for projects are being wasted on hiring vehicles instead of using the District's own vehicles.
- This Office noted that the scope of work for some of the projects were altered and not performed according to their initial scope. These projects include the Hawain Primary school double classroom, Hawain Aid post and Auxiliary Police Base – YC Wewak. This illustrates lack of proper management of the projects and raise questions over the effectiveness of the consultants engaged to monitor these projects.
- Cash advances totaling K500,029 were paid to individuals by the District for various purposes during the period under review. DSIP funds are meant to be used for projects and such payments only defeats the purpose of the DSIP.

(c) JDP&BPC Meeting Minutes

Except for the minutes of the JDP&BPC meetings No. 01/2009 and 02/2009, minutes of meetings for all other meetings held in 2008, 2009 and early part of 2010 were not provided to audit.

(d) DPMT Meeting Minutes

Minutes of all the DPMT meeting held during the period under review were not provided to this Office. Although a DPMT was established and active, the District engaged consultants to do the job of the DPMT. This defeats the purpose of establishing the DPMT.

These consultants were even awarded contracts by the District. It further raises question on how these two consultants who were also part of the DPMT were awarded contracts and how the projects they were engaged in were monitored.

(e) Monthly Management Reports

This Office did not sight any Monthly Management Reports. As mentioned above, despite establishing a DPMT, consultants were engaged for project scoping and managing of the District projects. It is not understood why no such reports were produced.

(f) Fixed Assets Register

A complete Fixed Assets Register was not maintained by the District. As such, this Office was unable to verify the existence, location and the ownership of the assets purchased by the District

During the period under review, the District had purchased several heavy equipment, a ship, vehicles and office equipment. The heavy equipment purchased included a dozer, backhoe and a prime mover/low loader. These assets were not recorded in the assets register. This machinery was parked in the MP's residence during physical inspection.

One of the vehicles, a toyota land cruiser purchased by the District was "donated" to a private security firm for reasons unknown. This Office also does not know the whereabouts of four (4) trucks as there is no record to support whom these vehicles were issued to. This represents a misuse of the DSIP funds.

(g) Minor Work Contracts

Not all Minor Work Contracts for minor procurement were provided. This Office is unable to determine if all the contractors/suppliers were engaged properly.

Minor work contracts serves as a binding agreement between the District and the contractor. Such a contract spells out the scope of works to be done and the amount to be paid. Without a minor works contract, there is a risk of the District paying a job that is incomplete and/or not done consistent to the initial agreement. This was evident as most of the projects inspected were incomplete.

(h) Cash book and Bank Reconciliation

Bank Reconciliation for 2009 and for the first six months of 2010 were not performed by the District.

The risk of not preparing monthly bank reconciliations is that fraudulent transactions effected through the bank account may not be detected.

(i) Procurement Procedures

Supply and Tenders Board approvals were not sighted for various purchases made by the District during the period under review. This included the purchase of heavy equipment at a cost of K1,617,500 including a ship for K660,000.

### **6.11.0 ANGORAM DISTRICT**

The audit of Angoram District was carried out for the period commencing February 2008 to June 2010. The audit findings are as follows;

(a) Five Year District Development Plan

The signed copy of the District's Five Year District Development Plan was not provided to this Office.

Without a certified copy of the District's Five Years District Development Plan, this Office is unable to determine whether the projects undertaken by the District were approved prioritized projects in line with the District's Plan.

(b) DSIP Receipts

As at 30 June 2010, the Angoram District had received funds totaling K14.2 million during the period under review.

This also includes funding of K200,000 received by the District from the Department of Agriculture and Livestock. This amount was allocated under the Agriculture Program.

(c) DSIP Expenditure

A review of Trust ledgers revealed total expenditure over K9.2 million during the period under review.

Examination of a selected sample of payment vouchers revealed the following;

- Payment vouchers were missing from the payment files. Two payment vouchers totaling K1,526,381 were not sighted. As such, audit was unable to verify the authenticity of the payments made.

- The District Administrator had approved a requisition for K1 million to Ela Motors which was beyond his delegated limit.
- The approval/endorsement from the JDP & BPC for several payments totaling K939, 400 were not sighted.
- Instances were noted where payments were made and charged under an incorrect program, resulting in over/under-commitment of fund allocated to affected programs. These include payments such as K1 million made to the five Local Level Governments for Agriculture and Community Based Projects paid under the Administration program.
- Payments totaling K119,890 paid out as cash advances, accommodation cost, air fares and vehicle hire were paid by the District to conduct JDP&BPC meetings in various locations within the country. DSIP funds should not be used to fly the JDP&BPC members to other parts of the country to conduct meetings.
- Since there was insufficient funds in the District Treasury Operating account, a cheque of K60, 000 was raised under the DSIP account and paid to the District Treasury Operating Account to enable a District Treasury cheque paid to a private company to be cleared.

DSIP funds should not be used in such a manner as the District Treasury is an operating account used for a different purpose. Also, it is not known if the District Treasury refunded the K60, 000 to the DSIP account.

- A cash advance of K10, 000 paid to an individual for administration cost for a land report. Approval for this payment along with the Land Report produced by this individual was not made available to this Office.

(d) Procurement Procedures

Supply and Tenders Board approvals were not sighted for various purchases made by the District during the period under review. This included the construction and installation of B-Mobile Towers and VSAT and the construction of District Administration Complex both valued at over K3 million.

Further, there was also no evidence to prove that proper procurement procedures were followed in awarding of the Teachers' Housing Project valued at over K7.5 million to another private company.

(e) District Project Management Team

The District did not establish a District Project Management Team (DPMT). The purpose of establishing a DPMT is to assist with the formulation of contracts and monitoring of contracts and projects and to ensure that they are within government standards. The effect of not having a DPMT will result in the above mentioned functions not been done effectively including poor monitoring of the outcomes.

This Office understands a project management consultant was engaged by the District at a cost of K297,000 to manage its DSIP projects. It is also understood that a new vehicle purchased at the cost of K108, 450 was being used by this consultant. This is a very expensive exercise to engage consultants when these monies can be better used for other projects under the DSIP.

(f) Monthly Management Reports

Monthly Management Reports were not produced. Although a project management consultant was engaged by the District to manage its projects, no such report was produced.

(g) Fixed Assets Register

A fixed assets register was not maintained for all the assets purchased by the District. This is a complete violation of the *Public Finance (Management) Act, 1995*.

During the period under review, the District had purchased several vehicles and outboard motors valued at a total cost of K1 million.

In the absence of an Assets Register, this Office is unable to determine the location, custodians and condition of all these assets purchased by the District.

(h) Minor Works Contracts

Minor Works Contracts for minor procurement were not sighted by the auditors. As such, this Office is unable to determine whether the contractors/suppliers were duly engaged or not.

(i) Cash book and Bank Reconciliation

Except for the months of December 2009 to May 2010, bank reconciliations have not been prepared monthly since the DSIP trust account was established in February, 2008.



## **6.12.0 HUON GULF DISTRICT**

The audit of Huon Gulf District was carried out for the period commencing February 2008 to October 2009. The audit findings are as follows;

(a) Five Year District Development Plan

A signed copy of the District's Five Year Development Plan was not provided to the auditors.

Without a certified copy of the District's Five Years Development Plan, this Office is unable to determine whether the projects undertaken by the District were approved prioritized projects consistent with the District's Plan.

(b) DSIP Receipts

Examination of the bank statements identified that the Huon Gulf District received a total of K10 million during the period under review. K4 million was received in 2008 while the balance K6 million was received in 2009.

(c) DSIP Expenditure

Review of the trust ledgers revealed that a total amount of K4.62 million had been spent by the District during the period under review.

Examination of a selected sample of payment vouchers revealed the following;

- Payment vouchers for several payments selected for further verification were missing from the payment vouchers files. This Office was unable to verify these payments at the time of the audit.
- The Huon Gulf District had used up all of the approved allocation of K300,000 under its Administration Program in less than two (2) years and had exceeded the approved allowable allocation (K300,000) under this Program. Approvals for funds to be transferred from other Programs to the Administration Program were not sighted.
- Excessive amounts of money totaling K141,520 was paid for airfares, accommodation and travel allowances for eleven (11) people to travel to the Philippines to officially pick up a boat is questionable.
- Cash advances totaling K170,130 raised and paid to various officers from the DSIP funds during the period under review were not acquitted and remained outstanding at the time of audit. These included the payment of K60,406 as cash advances to the eleven individuals who traveled to Philippines.

(d) JDP&BPC Meetings

Several of the JDP&BPC meeting minutes were not signed and certified by either the chairman and/or the secretary so as to authenticate that the records of the meetings as proper and accurate.

Minutes of these meetings were not properly maintained and numbered. Two of these meeting minutes carried the same meeting number.

(e) Project Implementations, Progress and Completion Review/Reports

Districts are required to provide timely reports of the implementation, progress and completion of all projects undertaken by the District. This includes full financial reporting, acquittal of funds and reconciliations.

Except for only one road project, project inspection reports including Progress reports and completion reports for all of the projects selected for audit verification were not sighted.

(f) Fixed Assets

The Fixed Assets register maintained by the Huon Gulf District was incomplete. Details such as registration numbers, engine numbers and chassis numbers of the motor vehicles that were purchased by the District were not recorded in the assets register that was maintained by the District. As such, this Office was unable to determine the accuracy, existence and value of all the assets that were purchased during the period under review.

Several other assets valued at K590,415 purchased during the period under review were also not recorded in the Fixed Assets Register.

(g) Minor Works Contracts

Minor Works Contracts entered into between the District and the various contractors in relation to several engagements selected for review were not made available to this Office. These included the payment of K200,000 to Tribal Link for a Coffee Rehabilitation Program and for a K100,000 paid to Kumugai Holdings for a land mobilization exercise.

(h) District Project Management Team Meeting

Except for the unsigned copy of minutes of meeting no. 02/09, this Office did not sight any of the minutes of meetings held by the DPMT during the period under review.

In the absence of the meeting minutes, it is not possible to determine if projects that were implemented had been properly screened and endorsed.

(i) Cashbook and Bank Reconciliation

The monthly bank reconciliation statements for the months of July, August and September 2009 were not made available to audit for review at the time of audit.

The cash book kept by the district was not maintained properly. A K2 million that was received and deposited into the Huon Gulf DSIP Trust account on 27 August 2009 has not been recorded in the cash book.

### **6.13.0 NAWAEB DISTRICT**

The audit of the Nawaeb District was carried out for the period commencing February 2008 to August 2009.

(a) Five Year District Development Plan

A certified copy of the Five Year District Development Plan was not made available to this Office. In the absence of a properly signed and sanctioned 5 Year District Development Plan, this Office is unable to confirm whether all project proposals had been approved by the JDP&BPC and whether those projects that have been implemented to-date were consistent with the District's Five Year District Development Plan.

(b) DSIP Receipts

Examination of the bank statements noted that the Nawaeb District received a total of K12.4 million during the period under review. It is understood that K2 million is part of the Capacity Building allocation of K4 million while the K0.4 million relates to funding received directly from the Department of Agriculture and Livestock that had been deposited into the DSIP Subsidiary account.

(c) DSIP Payments

Review of the cash book and expenditure ledgers showed that a total amount of K6.69 million had been spent by the District during the period under review.

Examination of a selected sample of payment vouchers revealed the following;

- Paid vouchers and/or supporting documents in relation to fourteen (14) payments totaling over K1.4 million were not sighted. In the absence of such supporting documents, this Office is unable to verify these payments. It is not known if procurement procedures were adhered to.
- The District had used up all of the approved allocation under its Administration Program in less than a year. Approval by the JDP & BPC to spend outside the approved allocation was not sighted during the audit.
- Written quotations were not sighted for forty (40) payments totaling K1,797,451. It was also noted in audit that the District did not maintain a quotation register in accordance with the Finance Management Manual and *Public Finances (Management) Act 1995*.
- It was also noted during audit, that most of the claims for payments were being raised by an electoral officer. The electoral officer is not a public servant and therefore cannot prepare and raise claims. Claims can only be raised by either the District Administrative Officer and/or officers who are in charge of the particular area of work as outlined in the *Public Finance (Management) Act, 1995*.
- Approval for the purchase of several vehicles, motorbikes and a 23 ft Dingy from Ela Motors was not sighted. It is not understood why the vehicles were purchased from Ela Motors, Port Moresby branch instead of the Lae Branch. If these purchases were made in Lae, a savings in the shipping cost of K38,500 could have been made.
- There were several instances noted where payments were split into minor values and authorized by the District Administrator and the District Accountant. It appears the claims for these payments had been deliberately spit into smaller amounts to bypass the procurement process. These claims should have been certified by the Provincial Administrator and the Provincial Treasurer prior to cheques being raised.
- Payments were incorrectly posted to unrelated programs. In some instances, road infrastructure and maintenance costs were posted under the communication and electrification program. Such error is misleading.

(c) JDP&BPC Meetings

Minutes JDP&BPC meetings were not certified by either the Chairman and/or the Secretary so as to authenticate the records of the meetings as proper and accurate. These minutes were also not properly numbered.

There were no indications of the JDP&BPC discussing projects identification and approving contractors for the various projects.

(d) District Project Management Team

The Nawaeb District did not have a DPMT in existence during the time of the audit. It is understood the District has yet to establish a DPMT.

Due to the non-existence of the DPMT, this Office has no assurance on how Contractors were engaged or how projects were identified, screened and selection processes were carried out.

In the absence of a DPMT, projects in the District were not adequately and properly supervised. An example is the Nawaeb High School Water Supply Project. According to information at the District office, this project had been completed and full payment made to the contractors. However, physical audit verification confirmed this project was incomplete.

(e) Bank Reconciliations

Bank reconciliations were not prepared monthly as required under the *Public Finance (Management) Act, 1995*. Four (4) months transactions were combined and only one bank reconciliation was prepared for these four months. All the bank reconciliations statements that were prepared were not certified by the preparer and the reviewer to authenticate the accuracy of the reconciliations. This Office could not confirm the accuracy and the validity of the bank reconciliations and the end balance of the DSIP subsidiary account.

(f) ANZ Bank Account

The Nawaeb District had opened an additional bank account with ANZ Bank - Lae branch calling it the Nawaeb District JDP/BPC Operating Account. It is understood the purpose of this account was to facilitate the district requirements for the implementation of the DSIP.

A total of K224,939 had been deposited into this account between May 2008 and October 2009. Accounting records such as, cash book, deposit books, official receipts and payment vouchers were not furnished to this Office.

This additional ANZ bank account is an unauthorized account that should be closed and any remaining funds must be transferred to the District account at Bank of South Pacific Limited.

Furthermore, the two signatories to this account were not Public Servants and thus, cannot maintain and/or the account or spend public funds.

(g) Fixed Assets

Examination of the cash book and expenditure ledgers revealed that a total of K1,266,272 was spent to purchase various assets for the District during the period under review.

The fixed assets register furnished to this Office was incomplete. Details of several fixed assets purchased during the period under review were not recorded in the fixed asset register.

Without the disclosure of details such as registration numbers, engine numbers, chassis numbers, custodian and location of the motor vehicles, this Office was unable to determine the existence and value of all the fixed assets that were purchased by the District during the period under review.

(h) Monthly Reports

District Administrators are required to provide Monthly Management Reports on both physical and financial status of the DSIP projects in the Districts to the respective JDP&BPC and to the ORD. Such reports, if any, were not sighted by this Office.

(j) Minor Work Contracts

Minor Work Contracts entered into between the District and the various contractors in relation to several engagements selected for review were not made available to this Office.

#### **6.14.0 LAE DISTRICT**

The audit of the Lae District was carried out for the period commencing February 2008 to July 2009.

(a) Five Year District Development Plan

A certified copy of the Five Year District Development Plan was not made available to this Office. In the absence of a signed and sanctioned 5 Year District Development Plan, this Office is unable to confirm whether all project proposals had been approved by the JDP&BPC and whether those project that have been implemented to-date were consistent with the District's 5 Year District Development Plan.

(b) DSIP Receipts

Examination of the bank statements revealed that the Lae District received a total of K10 million during the period under review.

(c) DSIP Payments

Review of the cash book and expenditure ledgers showed that a total amount of K6.4 million had been spent by the District during the period under review.

- The expenditures during the period under review were charged to only two (2) of the eight (8) approved programs. These were the Administration Program and Transport Program (renamed the Project fund). Instead of setting PGAS code for the eight programs outlined in the *Finance Instruction 3C/2008*, all expenditure were charged to only two programs.
- No cash advance register was maintained by the District to record details of cash advances paid. Examination of the transaction ledgers revealed several cash advance totaling over K42,000 paid to various officers during the period under review.
- The CIS Central Armory construction project is a failed project and it is understood legal action will be taken against the contractor for breach of contract.
- Most of the projects reviewed by this Office remained incomplete although full contract amount had been paid to the contractors.

(d) Project Implementations, Progress and Completion Review/Reports

Section 13.4 of the Finance Instruction particularly requires the District to provide a timely report of the implementation, progress and completion of projects. This Office was not provided with copies of reports produced by the District. In the absence of such report, status of each project undertaken during the period under review is not known.

(e) Reporting and Monitoring

District Administrators are required under Section 16 of the Finance Instruction to provide Monthly Management Reports on both physical and financial status of the DSIP projects in the Districts to their respective JDP&BPC and to the ORD.

Completed copies of such Reports were not furnished to this Office.

(f) Fixed Assets

The fixed assets register furnished to this Office was incomplete. Details of several fixed assets purchased during the period under review were not recorded in the fixed assets register.

(g) Minor Work Contracts

Signed minor work contracts were not made available for the various contracts under taken by the District during the period under review.

Proper records were not maintained and kept in relation to the works contracts under taken by the District during the period under review.

(h) DPMT Meeting Minutes

Minutes of DPMT meetings held during the period under review were not provided to this Office. In the absence of these meeting minutes, this Office could not verify whether project under taken by the District during the period under review were properly screened and monitored by the DPMT.

#### **6.15.0 BULOLO DISTRICT**

The audit of the Bulolo District was carried out for the period commencing February 2008 to December 2009. The audit findings are structured around the audit objectives described earlier.

(a) Five Year District Development Plan

An unsigned copy of the District's Five Year District Development Plan was made available to this Office.

In the absence of a properly signed and sanctioned Five Year Development Plan, this Office is unable to determine if the projects undertaken by the District were in line with the District's Five Year District Development Plan.

(b) Payment of accounts

The audit has focused on the management of the expenditure of K6.69 million of the K10 million already allocated to the District during the period under review.

(c) Project Screening

Section 10 of the Finance Instruction requires proposed projects to be prioritized, the prioritized list to be submitted to the JDP&BPC together with a completed Project Formulation Documents (PFD) for review and endorsement, and that the same be finally submitted to the District Project Management Team (DPMT) or, the Office of the Rural Development (ORD) as the case may be, for further appraisal and approval.



(d) District Project Management Team (DPTM)

Audit noted that there was no establishment of District Project Management Team (DPTM) which supposedly comprised of technical people from Provincial Works Unit and the District Administrator for further appraisal and approval of JDP&BPC prioritized proposed projects in the district as required under Section 6.3 of the Finance Instruction.

It is recommended that this important control function be established for effective coordination and endorsement of prioritized projects in the future.

(e) Project Implementations, Progress and Completion Review/Reports

Districts are required to provide a timely report of the implementation, progress and completion of projects. Except for two such reports, no reports were furnished for the rest of the projects undertaken by the District during the period under review.

(f) Reporting and Monitoring

District Administrators are required under Section 16 of the Finance Instruction to provide Monthly Management Reports on both physical and financial status of the DSIP projects in the Districts to their respective JDP&BPC and to the ORD. Complete Monthly Management Reports for the period under review were not provided to this Office.

As such, it is not known if such reports were produced by the Administrator. Audit was only provided with January to September 2009 copies of the Progress Reports for review. However, the 2008 expenditure component report was not prepared and produced for audit review.

(g) Fixed Assets Register

A complete fixed assets register was not maintained for all the assets purchased by the District. This is a complete violation of the *Public Finance (Management) Act, 1995*.

During the period under review, the District had purchased several vehicles and heavy equipments. However, not all the assets purchased by the District during the period under review were recorded in the fixed assets register. As such, this Office was unable to determine the existence, accuracy and the value of all the fixed assets that were purchased by the District during the period under review.

(h) Minor Works Contracts

Signed minor works contracts were not made available for the various minor works that were under taken during the period under review.

(i) DPMT Meeting Minutes

Minutes of all District Planning Management Team (DPMT) meetings held in during the period under review were not provided to this Office. In the absence of the minutes, AGO could not determine if the projects that have been implemented were properly screened and endorsed by DPMT.

### **6.16.0 SAMARAI DISTRICT**

The audit of the Samarai District was carried out for the period commencing February 2008 to August 2009.

(a) Five Year District Development Plan

A certified copy of the Five Year District Development Plan was not made available to this Office. In the absence of a properly signed and sanctioned Five Year District Development Plan, this Office is unable to confirm whether all project proposals had been approved by the JDP&BPC and whether those projects that have been implemented to-date were consistent with the District's Five Year District Development Plan.

(b) DSIP Receipts

Examination of the bank statements identified that the Samarai District received a total of K4 million for the period under review.

(c) DSIP Payments

Review of the cash book and expenditure ledgers revealed that the District had spent amounts exceeding K3.9 million during the period under review. Amounts totaling K3.7 million were posted under the Transport and Rural Infrastructure Program while the balance of K288,758 was charged to the Administration Program.

Examination of these payments revealed the following;

- The District had used up almost all of the approved allocation under its Administration Program in less than a year.
- Signed contracts were not sighted for the various boat construction and maintenance works that were undertaken for the period under review.

- An amount of K25,000 was paid as financial assistance for the maintenance of a boat owned by a foreigner (naturalized citizen).
- Payments totaling K167,775 were made for the construction and maintenance of several boats during the period under audit. However, status or work/ completion reports were not made available to this Office.

(d) Bank Reconciliations

Monthly bank reconciliation statements were prepared till the month of October 2008 for the Samarai Murua DSIP Trust account. The bank reconciliations for the months of November and December 2008 were not prepared.

(e) Monthly Reports

District Administrators are required to provide monthly management reports on both the physical and financial status of the DSIP projects in the Districts to their respective JDP&BPC and the ORD.

No such report was furnished to this Office for perusal.

(f) Fixed Assets Register

The fixed assets register furnished to audit was incomplete as it did not contain the full information on assets. Such information include, cost of assets, serial numbers, custody and location of each asset. Without these details there is a risk that assets could be abused or stolen without being detected.

It is understood that several assets purchased were dispatched from the Member's office in Alotau.

Amounts totaling K216,216 were paid to a company in Port Moresby for the manufacture of four (4) sea ambulances in September 2008. However, at the time of this audit in August 2009, these ambulances had still not been built.

Amounts totaling K381,571 was paid to a used car dealer in Port Moresby for several three-wheeler and PMV trucks. These PMV trucks purchased were reconditioned (used) vehicles. These vehicles had mechanical defects and without backup parts, most broke down within one year and there was no way of repairing them. As such, this expenditure may be considered as a waste or misappropriation of funds.

(g) Sweat Equity Program

Under a "Sweat Equity Program" reportedly approved by the JDP&BPC, amounts in excess of K1.4 million were paid to Ela Motors for the purchase of dinghies and motors for various individuals in the District. Under these arrangements, individuals deposited a certain percentage of the cost of the dinghy and the motor into the DSIP account and the District met the difference.

According to the District Administrator, forty two (42) dinghies and outboard motors and a tractor which have been fully paid for are yet to be delivered by Ela Motors.

Such arrangement is not allowed for under the DSIP and is also inconsistent with *Finance Instruction 3C/2008*. As such, the above mentioned payments are illegal and may be considered as misuse of the DSIP funds.

#### **6.17.0 ALOTAU DISTRICT**

The audit of the Alotau District was carried out for the period commencing February 2008 to August 2009.

(a) Five Year District Development Plan

A certified copy of the Alotau District's Five Year District Development Plan was not made available to this Office. In the absence of a properly signed and sanctioned Five Year District Development Plan, this Office is unable to confirm whether all project proposals had been approved by the JDP&BPC and whether the projects that have been implemented to-date were consistent with the District's Five Year Development Plan.

(b) DSIP Receipts

Examination of the bank statements revealed that the Alotau District received a total of K10.21 million during the period under review.

(c) DSIP Payments

Audit verification of the Trust Ledgers, revealed that amounts totaling K4,980,692 was spent on various activities during the period under review.

- Perusal of the individual ledgers also indicated that in many cases, expenditures were not posted to the correct program. This partially contributes to the over expenditure of funds to certain program activities.

- Expenditure totaling over K2.25 million was charged against Rural Communication & Electrification Program. Approval from the JDP&BPC for extra funds to be transferred and spent under these Programs was not sighted by audit.
- Authority to Pre-Commit (APC) Expenditure approved by the Department of Finance's APC Committee and signed by the Finance Secretary for payments totaling K1,063,387 paid to a construction company was not provided to the auditors.

(d) Monthly Reports

The District Administration is required to provide monthly management reports on the physical and financial status of the DSIP projects under taken by the District to the respective JDP&BPC and the ORD. Such reports, if any, were not made available to audit although requested.

(e) Fixed Assets Register

During the period under review, several assets were purchased by the District. This included payments totaling K1,055,140 paid to Ela Motors for several vehicles and dinghies. However, in the absence of a fixed assets register, this Office is unable to verify details and the existence of all the assets purchased by the District during the period under review.

(f) Consultancy Payments

Payments were made to individuals for the provision of consultancy services. Consultancy Agreements entered into between these consultants and the Districts were not made available to this Office. In the absence of these agreements, it is not known what type of service these consultants provided. Also, Reports, if any, produced by these consultants were not made available to audit.

## 6.18.0 KEREMA DISTRICT

The audit of the Kerema District was carried out for the period commencing February to December 2008.

(a) Five Year District Development Plan

A copy of the Kerema District's Five Year District Development Plan was not made available to this Office. In the absence of a properly signed and sanctioned Five Year District Development Plan, this Office is unable to confirm whether all project proposals had been approved by the JDP&BPC and whether those project that have been implemented to-date were consistent with the District's Five Year District Development Plan

It is also understood the JDP&BPC had allocated K100,000 for logistic and administrative support for the preparation of the Five Year District Development Plan.

(b) DSIP Receipts

Examination of the bank statements revealed that the Kerema District received a total of K4 million for the period under review.

(c) DSIP Payments

Examination of the Trust Ledgers revealed that amounts totaling over K3.7 million were spent under the various programs during the period under review.

- As per *Finance Instruction 3C/2008*, Districts are required to allocate and spend only K300,000 under the Administration Program. Examination of the ledgers revealed that Kerema District allocated K535,695 under the Administration Program and charged total expenditure of K799,464 (excess of K499,464) over and above the allowable amount for Administration Program.

Approval to spend over the approved allocation was not made available to this Office.

- Amounts totaling K543,294 were paid to five different companies for the provision of various goods such as computers, building materials and electrical items. At the time this Office visited the District, these goods and equipments were not received by the District.
- The prioritized list of proposed projects submitted by the District to ORD was not sighted during audit inspection;
- A total of K161,090 was paid to a private hire car company for the hire of motor vehicles in the years 2008 and 2009. The purpose of the vehicle hires, types of projects inspected and the duration of the project inspections were not indicated to justify the hire cost of the vehicle.
- Status reports on the upgrading and maintenance of the Iloka-Apanaipi road for which an amount of K300,000 was paid were not prepared by the District.

Further, no minor works contract was sighted for this engagement.

- Four payments totaling K176,000.00 were paid to a local contractor for three projects. These projects were the supply of school desks, construction of an aid post and a house for health workers and construction of a foot bridge. At the time of this Office visited the District, the aid post and the health worker's house were not completed and the foot bridge had not been built. This Office was advised that the materials for the above projects were left idle at the former mayor's residence.
- An amount of K298,930 was paid to a company in Port Moresby for the purchase of computers and accessories. Written quotations were not obtained from other suppliers prior to engagement of this company.

Also, at the time of audit, these computers and accessories had not been received yet although payment was made in 2008.

- An amount of K90,000 was paid to a private company to arrange all travel itineraries including airfares, accommodation, allowances and logistic support for an 8-member delegation ( including an employee of this company) for an educational trip to Philippines.

It is not known why payment was made to this company and how this company arrived at the figure of K90, 000. Quotations and/or invoices from the airline and hotels were not sighted by this Office.

No acquittals were furnished for this trip.

A report prepared on the outcome of this trip, if any, was also not furnished to this Office.

- Consultation reports and project documentation in relation to a payment of K445,000 paid to a company for the Kaintiba-Aseki Road and the Kerema Marine Livelihood were not made available to this Office.

Approval from Finance's APC Committee signed by the Secretary for Finance was not made available to this Office.

Failure to obtain properly approved and authorized APC will render any contract entered into null and void.

- Most of the local building and construction companies engaged by the District to carry out building and maintenance contracts during the period under review did not have the resources such as machinery, equipment, manpower or even the financial capability to properly carry out and complete the projects they were awarded.

- An amount of K182,774 was paid into the District Treasury Operating Account. This Office understands that this amount was a reimbursement of funds reportedly used/borrowed by the District Administration to assist in the DSIP projects. Records and documents in relation to these transactions were not made available to this Office. In the absence of the payment vouchers, it is not known what types of payments were made and whether these payments were in relation to the DSIP projects.
- Approval from the Kerema JDP&BPC in relation to a payment of K165,000 paid to a media company for the production of a 4-page Kerema Open Electoral newsletter was not made available to this Office.
- Consultancy Agreements signed between the District and a consultant for consultation and feasibility studies in relation to a water supply project was not made available to this Office. Further, a copy of the feasibility study report produced by this consultant was not made available to this Office.

(d) Bank Reconciliations

Although bank reconciliation statements were prepared monthly up to July 2009 for the Kerema DSIP Trust account, these statements were not certified and signed by a senior officer.

(e) Monthly Management Reports

District Administrators are required to prepare Monthly Management Reports on both the physical and financial status of all the projects undertaken under by the District to both their respective JDP&BPC and the ORD. Such reports, if any were prepared, were not provided to this Office.

(f) Fixed Assets Register

The Kerema District did not maintain fixed asset register to record details of all the assets purchased during the period under review.

The examination of ledgers revealed that several different assets were purchased by District. These included the payment of K298,930 to Maxform Ltd for the purchase of computers and accessories.

In the absence of an assets register, this Office is unable to determine whether details of all the assets purchased during the period under review were properly recorded.

Failure to maintain such records and documents is a violation of the *Finance Instruction 3C/2008, Public Finances (Management) Act* and the DSIP Administrative Guidelines.



## **6.19.0 KIKORI DISTRICT**

The audit of the Kikori District was carried out for the period commencing February 2008 to December 2008.

Issues highlighted as audit observations are structured around the audit objectives described earlier:

(a) DSIP Revenue

Examination of the bank statements revealed that the Kikori District received a total of K4 million during the period under review.

(b) DSIP Expenditure

According to the trust ledgers, the total amount of K3.9 million was spent by the District on various activities during the period under review.

- The District had used up all of the approved allocation of K300,000 under its Administrative Program. The Administrative Program fund is to be spread over a period of five (5) years and it is to be apportioned proportionately across the seven programs.
- DSIP funds received were not updated in the cash book prior to making payments.
- Examination of the individual ledgers indicated that transactions were not reliably posted to the correct program activity resulting in over or under allocation of funds to certain program activities.
- Two (2) payments totaling of K472,582 were paid to a Daun Pisang of Port Moresby for "services provided".

There was no approval of Kikori District JDP&BPC for the engagement of Daun Pisang. In the absence of proper documentations it is not known what type of services was rendered by Daun Pisang.

- The total amount of K813,089 was paid for consultancy services. However, consultancy agreements signed between these consultants and the District and the reports produced by these consultants were not made available to this Office.
- A payment of K250,000.00 was made to an individual reportedly for services rendered in Agriculture projects. In the absence of supporting documents and project reports it is not known what type of services were provided by this individual.

- Total payment of K130,020 was made to Temano Aviation Theory Centre for school fees. These payments were not approved by the Kikori District JDP&BPC. In addition, education program funds were mainly utilized for school fees.

The finance instruction does not allow for expenditure on the payment of school fees as part of the seven programs to be funded by DSIP.

- A total of K996,010 was paid to a company during the period under review for the supply of various goods, materials and services for various projects including activities, cash advances and for assistance given to the Kikori District Administration staff and JDP&BPC members. Details of assistance provided to the JDP&BPC members, cash advances and materials provided by this company is not known to this Office
- A total amount of K932,452.00 was paid to a company for the repair and maintenance of the Kikori Ferry. In the absences of proper documents, it is not known whether this ferry is owned and operated by the Kikori District.

Further, approval and copies of contract agreements between the District and the repair company from the Kikori District JDP&BPC and Optional Shipping Services for the maintenance and repair of the ferry were not made available.

(c) Five Year District Development Plan

The Five Year District Development Plan (DDP) was not provided to this Office. In the absence of Five Year District Development Plan, this Office is unable to determine whether project identification, consideration and prioritization were consistent with the District Development Plan.

(d) JDP&BPC Meeting Minutes

Complete minutes of all JDP&BPC meetings held during the period under review were not furnished to this Office.

(e) DPMT Meeting Minutes

Minutes of DPMT meetings held during the period under review were not provided to this Office. In the absence of these meeting minutes, this Office could not verify whether project under taken by the District during the period under review were properly screened and monitored by DPMT.

(f) Monthly Management Reports

District Administrators are required to prepare Monthly Management Reports on both the physical and financial status of all the projects undertaken by the District to both their respective JDP&BPC and the ORD. Such reports, if any prepared, were not provided to this Office.

(g) Fixed Assets Register

A fixed assets register was not maintained to record details of all the assets purchased by the District as required by the Finance Management Manual and *Public Finances (Management) Act 1995*.

Approval by the Kikori District JDP&BPC for the purchase of assets valued at over K1 million were not sighted. In the absence of a Assets Register, it is not understood how the administration kept track of all these assets.

(h) Bank Reconciliations

Monthly bank reconciliation statements prepared by the District were not made available for audit review.

(i) Records keeping

In most of the payments examined, supporting documentation was either missing or was not sufficient to justify the payment.

Failure to maintain such records and documents is a violation of the *Public Finances Management) Act, Finance Instruction 3C/2008* and the Administrative Guidelines.

#### **6.20.0 MORESBY SOUTH DISTRICT**

The audit of the Moresby South District was carried out for the period commencing February 2008 to December 2009.

Issues highlighted as audit observations are structured around the audit objectives described earlier:

(a) DSIP Revenue

This Office noted that no revenue ledgers had been maintained by the District. Consequently funds received during the period under review were not posted to the cash book

However, examination of the bank statements revealed that a total of over K10 million was received during the period under review.

(b) DSIP Expenditure

A review of cash book and expenditure ledger revealed the Moresby South District had spent in excess of K3.39 million during the period under review.

- These expenditures were charged to only two (2) of the eight programs. These were the Administration Program and Transport Program (renamed the Project fund). Instead of setting PGAS code for the eight programs outlined in the *Finance Instruction 3C/2008*, all expenditure was charged to only two programs.
- Amounts totaling K244,400 were charged to the Administration Program in 2009. As per *Finance Instruction 3C/2008*, K300,000 should be charged to the Administration Program over the 5 year period.
- Furthermore, in two (2) instances, funds totaling K27,000 were used to cater for allowances and refreshments/meals for the JDP & PBC members. Such payments are considered ambiguous and do not serve the purpose of the DSIP program.
- Expenditure totaling over K3 million was incurred and charged to the Project funds. Since the District maintained only two ledgers, this Office is unable to determine which of the seven programs the expenditure was related to.

Thus, the use of the PGAS and proper accounting treatment was never complied with.

- JDP&BPC approvals were not sighted for more than thirty percent (30%) of the payment vouchers examined.
- Fifty percent (50%) of payments selected for audit verification totaling over K1.12 million were not certified by the certifying officer. Thus, indicating weakness in the internal controls and risk of monies being misappropriated.
- Minor Works Contracts were not sighted for all minor works undertaken by the District during the period under review.

In the absence of such contracts, there is a significant risk of the District losing money when the contractors do not complete the projects or when a supplier does not supply what has been paid for.

A clear case was that of the Learning Center building at Ela Beach. It is understood an amount of K268,895 was approved for its construction, out of which an amount of K175,000 was paid to the contractors.

Audit inspection revealed the building was incomplete and that the building frames were collapsing. It appears that the contractor had abandoned the project leaving it in an un-complete stage.

Without any minor works contract it would be difficult trying to recoup what had already been paid to the contractors. Further, to complete this project, more money will have to be allocated to this project again.

- Amounts totaling over K1.4 million were paid to various contractors for the construction and maintenance of five (5) walkways at several of the villages along the coast. Only two were fully completed while the other three still remain in an incomplete stage. No reasons were provided for the non completion of these projects. Project inspections carried out by this Office of the completed walkways revealed very poor workmanship by the contractors. Thus, raising doubts in the process in which the contractors were selected.

(c) Five Year District Development Plan

The Five Year District Development Plan (DDP) was not provided to this Office. In the absence of Five Year District Development Plan, this Office is unable to determine whether project identification, consideration and prioritization were consistent with the District Development Plan.

(d) JDP&BPC Meeting Minutes

Complete minutes of all JDP&BPC meetings held during the period under review were not furnished to this Office.

(e) DPMT Meeting Minutes

Minutes of DPMT meetings held during the period under review were not provided to this Office. In the absence of the minutes, audit could not verify whether project under taken by the District during the period under review were properly screened and monitored by DPMT.

(f) Monthly Management Report

District Administrators are required to prepare Monthly Management Reports on both the physical and financial status of all the projects undertaken by the District to both their respective JDP&BPC and the ORD. Such reports, if any prepared, were not provided to this Office.

(g) Fixed Assets Register

The District did not maintain any assets register of all the assets that were purchased during the period under review. This Office could not verify the existence and ownership of various assets purchased during the period under review.

This is a complete violation of the *Public Finance (Management) Act 1995*.

A proper complete fixed assets register with necessary details of all the assets purchased under the DSIP must be maintained.

(h) Minor Works Contracts

Copies of all minor works contracts entered into by the District and various contractors were not provided to this Office.

(i) Cash book and Monthly Bank Reconciliation

Monthly bank reconciliations were never prepared and maintained for the Moresby South DSIP Subsidiary Trust account. This is a complete violation of the *Public Finance (Management) Act*.

Furthermore, the cash book provided to audit was poorly maintained and incomplete as it shows only the expenditure incurred during the period under review and not the funds received.

#### **6.21.0 MORESBY NORTH WEST DISTRICT**

The audit of the Moresby North West District was carried out for the period commencing February 2008 to July 2009. The audit findings are structured around the audit objectives described earlier.

(a) Five Year District Development Plan

The Moresby North West District's Five Year District Development Plan was not furnished to this Office. As such, it was not possible to determine if projects undertaken by the District were in line with the District's Five Year District Development Plan.

(b) DSIP Receipts

As at 31 July 2009, the Moresby North West District received K8.2 million DSIP grants.

(c) Payment of accounts

Total DSIP expenditure by the District during the period under review was K0.77 million.

Examination of the payments revealed the following;

- Payment vouchers or supporting project documents in relation to all the expenditures to date were not made available to this Office. As such, this Office could not verify and confirm if proper procurement procedures were adhered to.
- Tender documents in relation to several of the projects valuing over K1 million that were undertaken during the period under review were not made available for audit review. As such, this Office was unable to ascertain whether there were any Supply and Tenders Board approval for the projects undertaken by the District.

- This Office received a complaint letter from the Acting Officer In Charge of the Four Mile Police Station that the maintenance job carried out at the station was incomplete although payment was made in full to the contractor.

(d) Trust Codes in PGAS

No proper trust codes were set up in PGAS to include the individual eight different approved programs. All expenditure transactions relating to projects were posted under one expenditure code (605). There was no distinction between the different programs project expenditure.

Expenditure transactions pertaining to Administration were recorded under expenditure code 604. This is a breach of the requirement of *Finance Instruction 3C/2008*.

(e) Bank Reconciliations

Monthly bank reconciliations were never prepared for the Moresby North West DSIP Trust account.

(f) Monthly Management Reports

District Administrators are required to provide monthly management reports on both physical and financial status of the DSIP projects in the districts to the respective JDP&BPC and the ORD. Copies of such reports, if any, were not furnished to this Office. It is not known if these reports were produced by the District Administrator during the years under review.

(g) Assets Register

No fixed assets register was maintained by the District during the period under review. Examination of the trust ledger revealed several assets purchased by the District. However, in the absence of an assets register, this Office is unable to verify the existence of these fixed assets.

This is in breach of the Part 32 of the Financial Management Manual which requires proper assets registers to be maintained by all Departments, Provincial and Local level Governments which includes the Districts.

(h) JDP&BPC meeting minutes

Complete minutes of all JDP&BPC meetings held during the period under review were not furnished to this Office.

(i) District Project Management Team Meeting Minutes

Certified copies of the DPMT meeting minutes held during the period under review were not furnished to this Office.

(j) Minor Works Contracts

Minor Works Contracts were not sighted for several minor works and maintenance contracts that were under taken during the period under review.

**6.22.0 SOHE DISTRICT**

The audit of the Sohe District was carried out for the period commencing February 2008 to June 2010.

Issues highlighted as audit observations are structured around the audit objectives described earlier.

(a) DSIP Revenue

Examination of the bank statements revealed that the Sohe District received a total of K12.03 million during the period under review. The K0.03 million relates to interest earned directly from the Bank of South Pacific.

(b) DSIP Expenditure

Review of the cash book and expenditure ledgers revealed that a total amount of K12 million had been spent by the District to date.

Examination of the payments revealed the following;

- The District had spent over K1.6 million under its Administration Program. This is above the approved allocation of K300,000 under the Administration Program. As per the *Finance Instruction 3C/2008*, only an amount of K300,000 was to be allocated under the Administration Program and that amount was to be spread over a period of five (5) years.
- Cash advances totaling K 564,836 were raised and paid to various officers from the DSIP funds during the period under review. These cash advances were not acquitted and remained outstanding at the time of audit.
- Significant portions of payment totaling over K1.3 million were paid to several private hire car companies. One of these companies alone was paid more than K840,000. Another Moresby based hire car company was paid close to K90,000.



- Submissions made to the JDP&BPC for reallocation of funds and the approval from the JDP&BPC for funds to be reallocated to the other programs were not sighted in audit nor provided.

(c) Five Year District Development Plan

The Sohe District did not furnish a copy of its Five Year District Development Plan. In the absence of a properly signed, certified and sanctioned Five Year Development Plan, this Office is unable to confirm whether all project proposals had been approved by the JDP&BPC and whether those projects that have been implemented to-date were consistent with the District's Five Year District Development Plan.

(d) JDP&BPC Meetings

Proper records were not maintained of all JDP&BPC meetings held during the period under review. The minutes of meetings made available were not duly signed by the chairman to authenticate the validity and accuracy of the proceedings of meetings.

There were no records of any discussion in the meeting minutes regarding reviewing of project proposals.

(e) District Project Management Team

According to the District Administration, the Sohe District had not yet established any DPMT as required.

The purpose of establishing a DPMT is to assist with the formulation of contracts and monitoring of contracts and projects and to ensure that they are within the government standards. The effect of not having a DPMT will result in the above mentioned functions not being done effectively.

In the absence of a DPMT, this Office could not determine how all the projects undertaken by the District were screened and implemented.

(f) Bank Reconciliations

All the bank reconciliations prepared during the period under review were not certified by both the preparer and the reviewer to authenticate the accuracy of the reconciliations.

Review of the latest bank reconciliations statement revealed various uncleared items carried over from the previous year. These uncleared items require further investigation.

(g) Fixed Assets

The fixed assets register maintained by the District was incomplete, not comprehensive and was never updated.

Payments totaling over K1.5 million for purchase of motor vehicles and excavator could not be verified due to lack of proper records maintenance. Audit could not ascertain whether proper procurement procedures were observed or followed by the District in the purchase of the motor vehicles and machinery.

A Toyota land cruiser, registration number BCL 031 allocated to the Kokoda Hospital had its registered owner as Hon. Anthony Nene. There was no evidence to suggest that any attempts were made to transfer the ownership of this vehicle to the hospital.

Similarly, the ownership for three (3) other Toyota land cruisers purchased by the District during the period under review could not be verified by this Office in the absence of the registration papers.

(h) Project Screening

There is no evidence to suggest that all the projects undertaken by the District had been effectively prioritized, duly endorsed and approved by the JDP&BPC. It appears most projects were undertaken on an ad hoc basis.

(i) Monthly Reports

District Administrators are required to provide Monthly Management Reports on both the physical and financial status of the DSIP projects in the Districts to the JDP&BPC and to the ORD. Such reports, if any, were not made available to this Office.

(j) Project Status Reports

No proper Project Status Report had been prepared by the District. This Office was not provided copies of any status report on the different projects undertaken by the District. This lapse in reporting is a result of the non existence of the DPMT.

(k) Provincial Supply & Tenders Board

Approval by the Provincial Supply & Tenders Board was not made available for the purchase of a heavy equipment and several motor vehicles at a total cost of over K1.4 million.

(l) Works Contracts

Signed contracts were not sighted for various minor and major works, maintenance, feasibility studies and consultancy works that were under taken by the District during the period under review.

(m) Procurement Procedures

Payments totaling over K4.5 million were made without proper documentations and financial delegates' signatures.

The related payment vouchers were not provided to this Office for verification.

Most payments were also charged to wrong programs.

### **6.23.0 IJIVITARI DISTRICT**

The audit of the Injivitari District was carried out for the period commencing February 2008 to June 2010.

Issues highlighted as audit observations are structured around the audit objectives described earlier:

(a) DSIP Revenue

Examination of the bank statements revealed that the Ijivitari District received a total of K12.2 million during the period under review. It is understood that K2 million is part of the Capacity Building allocation while K200,000 relates to funding received directly from the Department of Agriculture and Livestock.

(b) DSIP Expenditure

Review of the cash book and expenditure ledgers showed that a total amount of K10.26 million had been spent by the District to date.

- Submissions made to the JDP&BPC for reallocation of funds and the approval from the JDP&BPC for funds to be reallocated to the other programs were not sighted in audit nor provided.
- Payments totaling over K1.5 million could not be identified to any of the eight (8) approved DSIP programs.
- The District had spent K808,161, which is over and above the approved allocation under its Administration Program in less than a year.

- Examination of the Trust Ledgers revealed that the District had spent over and above the K 970,000 that had been allowed for under the Law & Justice Program and the Agriculture Programs. Approval by the JDP&BPC to spend over and above the approved allocation under the Law & Justice Program and the Agriculture Programs were not provided to this Office.
- Audit noted that the Trust codes were not named correctly or consistent with the codes given under *Finance Instruction 3C/2008*.
- Cash advances totaling over K1.3 million were raised and paid to various officers during the period under review. These advances were not acquitted and remained outstanding at the time of audit.
- Certain claims valued over K300,000 were split into smaller amounts and approved by the District Administrator and the District Treasurer. These appear to have been done intentionally to bypass the tender process.
- Payment vouchers and/or proof of services provided were not sighted for payments totaling K 752,080 paid to two different companies.
- Details of a payment of K 100,000 made to a company on 25 November 2009 reportedly for outstanding bills and entitlement revealed the following matters;
  - There was no existing contract signed for engagement with proper terms of reference to ascertain scope of work;
  - There was no breakdown of cost to confirm actual work done;
  - No completion/inspection reports were provided; and
  - The payments had been processed without complying with procurement procedures.
- Details and reasons for an amount of K60,000 paid by the District to the Oro Provincial Treasury is not known. According to the payment vouchers, this was a reimbursement of funds used by the District.
- Two (2) payments totaling K 110,000 were paid to the Receiver of Public Monies (RPM). It is not understood why these DSIP funds were written back to the RPM account and described as "Unspent Monies". Unused DSIP funds cannot be written back to the RPM account.

- In May 2010, a cheque for K40,000 was cashed to pay for a funeral expenses. Such payments are improper and defeat the purpose of the DSIP. Use of DSIP funds to pay for personal expenses such as funeral must cease.
- Instances were noted where payments were split to avoid the procurement procedures. Proper procurement procedure should be applied at all times. The practice of splitting claims for payments made for the purpose of bypassing the approved system of processing claims should be discouraged.

(c) Five Year District Development Plan

An uncertified copy of the District's Five Year District Development Plan was provided to this Office.

In the absence of a properly signed and sanctioned Five Year District Development Plan, this Office is unable to confirm whether all project proposals had been approved by the JDP&BPC and whether those projects that have been implemented to-date were consistent with the District's Five Year District Development Plan.

(d) JDP&BPC Meetings

Minutes of the JDP&BPC meeting conducted during the period under review were not signed and certified by either the Chairman and/or the Secretary so as to authenticate the records of the meetings as proper and accurate.

Several of the resolutions passed by the JDP & BPC were also not signed.

All JDP & BPC members had not signed meetings 2/2009, 3/2009 and 1/2010 as to indicate their attendance.

There were no indications of the JDP&BPC discussing projects identification and approving contractors for the various projects. There was no record of any discussion in the meeting minutes regarding reviewing of project proposals. Furthermore, there was no record or summary of the number of project submissions that were made under each program and record of the number of contractors bidding for the projects under each program.

(e) District Project Management Team

Enquiry with the management and staff revealed that the Ijivitari District had not yet established any DPMT as required.

Due to the non-existence of the DPMT, this Office does not understand how contractors were engaged and projects were screened.

(f) Bank Reconciliations

Bank reconciliations were not prepared monthly as required under the *Public Finance (Management) Act, 1995*. This is an act of negligence by the officers in upholding their responsibilities.

Bank reconciliations for the year were not certified by the preparer and the reviewer to authenticate the accuracy of the reconciliations. This Office is unable to confirm the accuracy and the validity of the bank reconciliations and the closing balance of the DSIP subsidiary account for the period under review.

(g) Fixed Assets

The fixed assets register maintained by the District was incomplete, not comprehensive and was never updated.

This Office was unable to verify and confirm the ownership of the eight (8) motor vehicles purchased using DSIP funds.

Several of these vehicles had/carried private number plates.

Payments totaling K865,223 were made for the purchase of several motor vehicles, dinghies and outboard motor could not be independently verified due to lack of supporting documents.

(h) Monthly Reports

District Administrators are required to provide Monthly Management Reports on both the physical and financial status of the DSIP projects in the Districts to the JDP&BPC and to the ORD.

Such reports, if any, were not made available to this Office.

(i) Project Status Reports

No proper Project Status Report had been prepared by the District. This Office was not provided any brief report on the status of the projects undertaken by the District.

This lapse in reporting is a result of the non existence of the DPMT.

(j) Authority to Pre-Commit

Authority to Pre Commit (APC) was never sighted for a payment of K499,800 to Freeway Motors for the purchase of an heavy equipment. Failure to obtain such an approval is a complete violation of the Public Finances (Management) Act.

The approval of the Provincial Supply & Tenders Board was not made available.

Another payment of K507,900 was paid to Freeway Motors for the purchase of several vehicles. No APC endorsements were sighted. Funds were drawn from three programs to fund these purchases.

In the absence of tender documents and paid vouchers, the payment of K200,000 to Oro Enterprise for the purchase of Vessel could not be verified.

(k) Minor Works Contracts

Signed contracts were not sighted for various minor works, maintenance, feasibility studies and consultancy works that were under taken by the District during the period under review.

Furthermore, proper procurement procedures were not followed in awarding minor works and maintenance contracts.

#### **6.24.0 KANDRIAN DISTRICT**

The audit of the Kandrian District was carried out for the period commencing February 2008 to July 2009.

(a) Receipts

As at 31 July 2009, the Kandrian District had received a total of K12.2 million DSIP grants. This includes K200,000 that was received from the Department of Rural Development & Livestock.

According to the District, the extra K2 million was received for Capacity Building. This Office is unable to comment on which specific areas these funds were to be utilized as no information in regard to these funds was provided.

(b) Payment of accounts

Total DSIP expenditure by the District during the period under review was K4.8 million. Of this, K560,000 was spent in 2008 while K4.2 million was spent in 2009.

- The transaction detail ledgers and cash book records for 2008 were never provided to this Office.

- Acquittal documents relating to the usage of K510,000 paid to the fifty-one (51) LLG council wards were never provided. As such, this Office is not sure of the type and nature of the projects undertaken by the LLGs.

There were no evidence to suggest that DPMT had been monitoring the usage of these funds.

- No formal contractual documents and progress reports were made available for the maintenance work carried out on three (3) police houses at Cape Gloucester government station. Funds for these maintenance works were transferred to the Kandrian Gloucester Electorate Development Account.
- Proper documentation such as professional/educational qualification, company profile and clear description of the kind of consultancy service were not provided in relation to the engagement of several consultants.
- Provincial Supplies & Tenders Board approvals were never provided or made available for review for four (4) projects valued at over K1 million.

(c) Joint District Planning & Budget Priority Committee meetings

Minutes of several of the JDP&BPC minutes and resolutions held in 2009 were not certified and duly signed. This Office is unable to comment on the reliability of the minutes and resolutions being passed by the JDP&BPC.

(d) District Project Management Team meetings

Meeting minutes of the DPMT were not provided. As such, this Office is unable to determine whether the projects carried out were approved by the DPMT.

This Office is unable to comment on the formalities and procedures put in place to determine and award all labor contracts and materials purchased that are valued below K100, 000.

Consequently, audit could not ascertain the actual number of projects and funding that were approved by the DPMT.



(e) Project Status Reports

Monthly management reports on the physical and financial status of the District's DSIP funded projects to the JDP&BPC and the ORD as required were not provided.

Project proposals and approvals for the projects undertaken by the District during the period under review were never sighted.

(f) Assets Register

The District did not maintain any fixed assets register of all the assets that were purchased during the period under review. This Office could not verify the existence and ownership of various assets including motor vehicles, out board motors, dinghies, machineries, and other equipments worth over K1.7 million purchased during the period under review.

An heavy equipment, a dozer-D5KxL and two trucks purchased at a total cost of K881,718 were never transported to the District. These assets were in Kimbe Town and are being used to do maintenance work within Kimbe town.

(g) Cash Book and Bank Reconciliations

Bank reconciliations for 2008 and 2009 were not prepared on a monthly basis.

In the absence of the cash book, this Office was unable to confirm the cash book balance reflected in the bank reconciliation as at 31<sup>st</sup> December 2008. Further, bank reconciliations for the last five (5) months of 2009 were not prepared.

#### **6.25.0 TALASEA DISTRICT**

The audit of the Talasea District was carried out for the period commencing February 2008 to July 2009.

(a) DSIP Receipts

A total of K12.4 million was credited into the DSIP trust account during the period under review. This includes K10 million DSIP funding and another K2 million earmarked for capacity building. This also includes K200,000 that was received from the Department of Rural Development & Livestock.

(b) DSIP Payments

Total DSIP expenditure by the District during the period under review was K10.9 million during.

- The District had not developed a Priority List of Projects to be funded under the DSIP. In the absence of a Priority List of Projects, it is not known how projects were selected and funded under the DSIP.
- The District had over spent against the approved allocation under the Administration, Education and Transport Programs. Approvals to transfer funds from other Programs to these three programs were not furnished to this Office.

Under *Finance Instruction 3C/2008*, an amount of K300,000 was to be spent on Administration. Talasea District has exhausted all these funds which was meant for a five (5) year period and has over spent this budget by about K81,000.

- A total of K427,123 was paid out as cash advance during the period under review. Out of this total, K378,563 remained un-acquitted as at the time of audit. These included significant amounts of K351,307 that were paid to a number of non-public servants and individuals. These payments have not been acquitted therefore, audit could not determine whether the funds were used for the intended purposes.
- Instances were noted where the District was splitting payments of larger amounts into small amounts. These appear to have been done purposely to avoid the approve procurement procedures. These include the requisitions for the purchase of motor vehicles and other equipments.
- Following a JDP&BPC resolution passes in 2008, a total of K4 million was distributed to the six (6) Local Level Governments (LLG) in the Talasea District. It is understood these LLGs were to use the DSIP funds allocated to them to fund and manage projects within their respective LLGs. However, the list of projects to be funded and managed by respective LLG's and the status of these projects were not provided to this Office.
- No police and/or accident reports were sighted for one of the District vehicles that was involved in the accident
- Thirty two (32) payments totaling over K2.6 million did not have proper supporting documentations. This Office was unable to verify these payments.

- Payments totaling K653,283 were raised and paid for the training of thirteen (13) ship crew members in Sydney, Australia. These payments were not approved by the PSTB. The overall value of this training is not known.

These payments did not have proper supporting documentations.

These included K167,893 raised by the District to pay for travel allowance, airfares, medical checks, accommodation and cash advances for the 13 students plus five (5) other representative of the District to "escort" the students to Australia. Three (3) of these representative were non-public servants. Hence, a total of K653,283 had already been expensed for this exercise alone. This trip has not eventuated as at the time of audit.

(c) JDP&BPC Meeting Minutes

The complete minutes of all the JDP&BPC meetings held during the period under review were not provided. Copies of meeting minutes made available were not certified by chairman and secretary so as to authenticate the accuracy of the minutes.

(d) District Project Management Team (DPMT)

Minutes of meeting number 3/2009 was not provided to audit. Also, not all the meeting minutes were certified by the Chairman so as to confirm accuracy of minutes.

The DPMT had not executed its responsibility effectively due to continuous changes in its management (District Administrators). Thus, resulting in the poor management and supervision of the DSIP projects. DPMT members were each paid meeting allowances at the rate of K100 per meeting. Payment of meeting allowances to DPMT and/or JDP&BPC members is not allowed.

(e) Monthly Status Reports

The District Administration had not submitted monthly management reports on the physical and financial status of the District's DSIP projects to its JDP&BPC and the ORD as required.

(f) Bank Reconciliations

Bank Reconciliations were not prepared on a monthly basis. As a result the bank reconciliations for the months of January 2008 through to October 2008 were prepared as one bank reconciliation. No bank reconciliation was prepared for the month of November 2008.

Similarly, the bank reconciliations for the months of January through to April, June and July and October and November were combined.

Further, these bank reconciliations were not certified by the reviewer (District Treasurer) so as to authenticate the accuracy of the bank reconciliations.

(g) Assets Register

No proper fixed assets register was maintained by the District. As such, this Office could not verify the existence and ownership of motor vehicles and other assets purchased at a total cost of K1.03 million under the DSIP.

It is understood a Toyota land cruiser purchased at a cost of K375,530 had been retained and was being used for personnel use by the suspended District Administrator for Talasea District. It is not known if this vehicle has been returned.

(h) Minor Works Contracts

The following abnormalities were noted in relation to projects and awarding of contracts;

- Minor works contracts detailing the terms and scope of the contracts undertaken for the various minor works undertaken by the District during the period under review was not sighted.
- No major work had started on a re-gravelling road project valued at K934,158 although K879,158 (90%) had already been paid to the contractor. A visit to the project site by this Office revealed that this project was still in its first stage (which was clearing).
- A local consulting company was engaged by the District to provide consulting services at the rate of AU\$3,400 per day.

It is not known why this local consultant was paid in Australian Dollar. The total value of the contract is not known to this Office. There was no evidence to prove that proper tender procedures were followed in awarding the contract to this consulting firm.

It is understood the owner of the consulting company is the husband of an employee to the Member for Talasea. This is a total conflict of interest.

- The District used DSIP funds to construct a double classroom which was initiated and was to be funded by the Office of the Prime Minister. The total amount spent by the District was to be reimbursed by the Office of the Prime Minister. The project was completed and the classroom was officially opened by the Prime Minister however the cost had not been reimbursed.
- The contractor engaged to construct an Aid Post at a cost of K60,000 had deserted this project leaving it in an in-complete state although the full contract amount had been paid to the contractor. According to records available at the District office, this project was completed satisfactorily. However, a visit to the project site indicated that this particular project was not completed. There was no roofing iron over the skeleton frames, no walls and the floor was covered in water.
- Contract Agreement and PSTB approval were not made available for the construction of Village Court Houses at the valued at K790,000.
- Approval for the engagement of consultants engaged to secure funds for the construction of Health Centers and Aid Posts valued at K225,000 were not sighted.

Furthermore, project proposals and feasibility studies and/or reports of funding secured from the Government or other agencies were not made available.

- Accountability reports were not produced by the various groups that were given funds for fishery and piggery projects.

#### **6.26.0 KOKOPO DISTRICT**

The audit of the Kokopo District was carried out for the period commencing February 2008 to December 2009.

The Kokopo District was one of the few Districts to submit the financial statements on the financial affairs of the District. However, this Office is unable to comment on the format used to prepare these financial statement since Department of Finance is yet to approve the format of how the DSIP financial statement are to be presented.

##### **(a) Five Year District Development Plan**

A signed copy of the District's Five-Year District Development Plan was not provided. In the absence of a properly signed and sanctioned Five Year District Development Plan, this Office is unable to determine whether all projects undertaken by the District during the period under review were part of the District's approved projects.

(b) DSIP Receipts

Examination and analysis of cash book, collector's statement and bank statement reveals that a total of over K10.2 million received during the period under review. These includes the initial transfer of K4 million into the trust account in 2008 and K6.2 million in 2009.

The District received an additional K200,000 from the Department of Agriculture and Livestock and was allocated to projects under the Agriculture and Community Based Programs.

(c) DSIP Expenditure

Review of Trust Account Transaction Detail – YTD (expenditure ledger) reveals that the total expenditure of over K5.1 million was incurred during the period under review.

The District started implementing the DSIP program in October 2008 and by 31 December 2009 a total of over K7.4 million (in 2008 & 2009) had been spent.

Examination and analysis of the expenditure ledgers revealed the following:

- Under the DSIP Program, Administrative allocation of K300,000 is to expended over a five-year period. Kokopo District has however, exhausted its approved allocation in less than two years by over K180,000. Audit noted that the project scoping expenditures, which were massive in some cases and other minor un-related expenses were erroneously charged to the Administration vote hence the over-expenditure.
- Most of the payment vouchers selected for testing were not properly supported with the necessary supporting documents. This was noted in relation to a payment of K200,000 paid as reimbursement to the Kokopo District Treasury for a road scoping and sealing. It is not known who authorized this payment and why Treasury paid instead of the District.
- Necessary supporting documents for a payment of K20,422 to the Credit Corporation were not made available to this Office. It is understood this payment was made on behalf of a local business group who had obtained a motor vehicle loan from Credit Corporation.

(d) Monthly Management Reports

District Administrators are required to provide Monthly Management Reports on both physical and financial status of the DSIP projects in the Districts to their respective JDP&BPC and the ORD. Such reports, if any, were not sighted or provided.

(e) Minor Works Contracts

Signed contracts were not sighted for various minor works and maintenance works that were under taken during the period under review. As such, I am unable to ascertain whether minor works contract awarded were done in accordance with the guidelines as stipulates under the *Public Finances (Management) Act*.

(f) JDP&BPC Meeting Minutes

Not all the minutes of the JDP&BPC meetings held during the period under review were submitted to this Office. The minutes that were made available to this Office were not signed to authenticate that these were proper and accurate proceedings of the meetings.

(g) DPMT Meeting Minutes

Minutes of the DPMT meetings held during the period under review were not furnished to this Office.

Consequently, the Office could not determine if the projects under taken by the District were properly screened and evaluated prior to engagement of contractors.

(h) Procurement Procedure

The following discrepancies were noted;

- In most cases written quotations were not sighted.
- Instances were noted where FF3s & FF4s were inappropriately authorized. Instances were noted where payments were authorized by the District Treasurer when these payments should have been approved by the Provincial Treasurer.
- Similarly, payments which should have been authorized by the Provincial Administrator were authorized by the District Administrator

(i) Fixed Assets Register

District had spent over K140,000 during the period to purchase motor vehicles and other fixed assets. No proper fixed assets register was maintained to record these purchases.

## **6.27.0 GAZELLE DISTRICT**

The audit of the Gazelle District was carried out for the period commencing February 2008 to December 2009.

The Gazelle District was one of the few Districts to submit the financial statements on the financial affairs of the District. However, this Office is unable to comment on the format used to prepare these financial statement since Department of Finance is yet to approve the format of how the financial statement are to be presented.

(a) DSIP Receipts

Examination of the bank statements revealed that a total of K10.2 million was received during the period under review. These include the initial transfer of K4.2 million into the trust account in 2008 and K6 million in 2009. This included an additional funding of K200,000 received in 2008 from the Department of Agriculture and Livestock and allocated the funds under the Agriculture Program.

(b) DSIP Expenditure

A review of Trust ledgers revealed total expenditure of over K5.9 million during the period under review.

Examination and analysis of the expenditure ledgers revealed the following:

- Except for Administration Program, DSIP funds were not allocated to the various Programs consistent with the Finance Instruction. The JDP&BPC approvals for the reallocation of funds from one program to another were not sighted.
- The District had spent significant amount of money as counterpart funding for various projects. Although payments had been made in full to the respective contractors, no work had commenced as yet for some of these projects while some remain incomplete.



- The District had spent over K78,000 on hiring of private vehicles in 2008 and 2009. This Office could not understand why vehicles were hired while the District had purchased a lot of vehicles.
- The District had paid funds in excess of K46,000 as financial assistance to a church and some co-operative groups. DSIP funds cannot be used to provide financial assistance.
- An amount of K25,000 was paid as reimbursement for fees paid by 126 trainees at a tailoring school as a pledge made by the open member of Parliament. This payment was made without proper JDP&PBC deliberations and was not budgeted for.

(c) JDP&BPC Meeting Minutes

Except for the minutes of two (2) JDP&BPC meetings held in 2009, minutes of all other meetings held in 2008 and 2009 were not provided.

(d) DPMT Meeting Minutes

Minutes of DPMT meetings held during the period under review were not provided.

Consequently, AGO could not determine if the projects under taken by the District were properly screened and evaluated prior to engagement of the contractors.

(e) Monthly Management Report

Monthly Management Reports, if any, were not provided to this Office.

District Administrator are required to provide monthly management Reports on both the physical and financial status of the DSIP projects to their respective JDP&BPC and to the ORD.

(f) Minor Works Contracts

Minor Works Contracts for minor procurement were not provided to AGO. This Office is unable to determine whether the contractors/suppliers were duly engaged.

## **6.28.0 RABAU DISTRICT**

The audit of the Rabaul District was carried out for the period commencing February 2008 to July 2009. Audit findings are structured around the Objectives described earlier

(a) Five Year District Development Plan

The Five Year District Development Plan was not furnished to this Office. As such, it was not possible to determine if projects undertaken by the District were in line with the District's Five Year District Development Plan.

(b) DSIP Receipts

Analysis of cash book and bank statements revealed total receipt of K12.027 million (K12 million – Grants and K27, 822 – Interest earned) during the period under review.

Examinations of the bank statements reveal that the District had received a total of K10 million during the period under review. This included an additional funding of K2 million which was allocated to Transport and Infrastructure program.

It is understood a cheque for K200,000 received from the National Agriculture Development Program (NADP) had not been deposited into the trust account and had become stale. The District is waiting for a fresh cheque to be redrawn by NADP.

(c) Payment of accounts

A review of Trust Account Transaction Detail – YTD reveals that the total expenditure of over K4.1 million during the period under review.

Examination of selected sample of payments revealed the following;

- The District purchased a house and furniture at a total cost of K93,053 reportedly for the health workers. It is understood why the title of the house has not yet been transferred to the District.
- A duplicate payment of K22, 560 was made to supplier for the purchase of trophies and sport equipments thus, reflecting the failure of the District to properly examine all payments before raising payment.
- In several instances, expenditure were charged to different or unrelated programs, such as the payment of K20,000 to the ENB Law & Justice as financial support for special operations to be conducted over the festive season. This payment was made under Transport and Infrastructure instead of Law and Justice.

(d) Financial Statements

The Rabaul District compiled and furnished to this Office the financial statements for the period ending 31 December 2009. This Office is unable to comment on the format used in drawing up the financial statements since the Department of Finance is yet to approve a format on how the financial statements are to be presented.

(e) Monthly Management Report

Districts are required to provide monthly management reports on the physical and financial status of DSIP projects to their respective JDP&BPC and the ORD. However, such reports if any produced by the District were not provided for audit perusal although requested. In their absence, it is not known if such reports were produced by the District Administrator.

(f) Fixed Assets Register

An incomplete fixed assets register was furnished to this Office. The assets register did not contain the necessary details as required of all fixed assets that was purchased. No proper classifications of assets were made and most of the information was not properly and promptly recorded. Details such as model and serial of vehicles, date of purchase and the location of most of these assets were not recorded.

It was further noted that only 8 of the 10 computers purchased for the respective divisions in the District was recorded in the fixed assets register.

(g) Minor Works Contracts

The Minor Works Contracts for minor procurements were not made available. This Office was not able to verify whether the contractors and/suppliers were duly engaged.

#### **6.29.0 NORTH BOUGAINVILLE DISTRICT**

The audit of the North Bougainville District was carried out for the period commencing February 2008 to July 2009.

(a) Five Year District Development Plan

The North Bougainville did not have a Five Year District's Five Year District Development Plan was not furnish to this Office. As such, it was not possible to determine if projects undertaken by the District were in line with the District Five Year District Development Plan.

(b) DSIP Receipts

Examinations of the bank statements reveal that the District had received a total of K10 million during the period under review. These DSIP funds were allocated to projects in accordance with the Finance Instruction.

(c) Payment of accounts

Total DSIP expenditure during the period under review was over K8.2 million. Of this, K3.4 million was spent in 2008 while K4.8 million was spent in 2009.

Examination of selected sample of payments revealed the following;

- Expenditures in excess of K6.9 million were charged to the Transport and Community Infrastructure Program. Approval by the JDP & BPC to source funding from the other programs to increase allocation to this program were not provided.
- Trust Codes were not properly assigned to the programs as specified in the Finance Instruction. Proper and correct trust codes and names must be assigned to the respective programs.
- Amounts totaling K221, 000 were paid out as financial assistance to individuals and groups for various unknown reasons.

Provision of financial assistance is not allowed under the DSIP program.

- An amount of K1 million was paid to PNG Power for the purchase of power cables and the installation of electricity from Buka Island to Kokopau on mainland Bougainville. It is understood these fiber cables had still not been received and installed.
- Amounts in excess of K190,000 were paid under the Administrative Program as consultancy fees and professional services rendered.

However, reports that were produced by the consultants were not made available. In the absence of such reports, it is not known what type of work or studies were carried out by these consultants.

(d) JDP&BPC Meeting Minutes

All the minutes of the JDP&BPC meetings held in 2008 and 2009 were not provided to this Office. The minutes of the meetings that were furnished were not properly numbered.

(e) DPMT Meeting Minutes

Minutes of DPMT meetings held during the period under review were not furnished for audit perusal.

Consequently, this Office could not determine if the projects under taken by the District were properly screened and evaluated prior to engagement of contractors.

(f) Assets Register

No Fixed Assets register was furnished to this Office.

Consequently, in the absence of such register, this Office could not verify the existence and ownership of more than 100 assets including a ship, out board motors, tuffa tanks, sawmills, and other equipments purchased at the cost in excess of K1.7 million under DSIP during the period under review.

There were no records maintained by the District to show the actual number of assets that were purchased and location of each of these assets.

(g) Monthly Reports

District Administrators are required to provide monthly management reports on both the physical and financial status of the DSIP projects in the districts to the respective JDP&BPC and the ORD. No such reports were provided to this Office. It is not known if these reports were produced.

(h) Bank Reconciliation

Monthly bank reconciliations were prepared up to May, 2009. Bank reconciliations for the subsequent months of June and July 2009 were not provided.

(i) Supply and Tenders Board

Under the *Public Finance Management Act*, any major procurements above K3 million requires approval from the Central Supply & Tenders Board.

During the period under review, a road grading and graveling contract valued at over K3 million was awarded to STK Earthmoving. AGO did not sight all required documents for the engagement of this contractor. These include the necessary documents for proof of tenders being called, Central Supply & Tenders Board approval and copies of signed contracts.

(j) Minor Works Contract

Signed contracts for various minor works and maintenance works that were under taken during the period under review were not provided to this Office.

### **6.30.0 CENTRAL BOUGAINVILLE DISTRICT**

The audit of the Central Bougainville was carried out for the period commencing February 2008 to July 2009. Audit findings are structured around the audit objectives described earlier.

(a) District Development Plan

The Central Bougainville District does not have a Five Year District Development Plan which establishes long term objectives, sets priorities and targets and takes into account the requirements of its scope of appropriations.

(b) DSIP Receipts

Examination of the Central Bougainville District's bank statements revealed that amounts totaling K10 million had been received by the District at the time of this audit.

(c) Payment of Accounts

Total DSIP expenditure during the period under review was K2.14 million. These were charged to only four (4) of the eight (8) DSIP programs.

- The District had spent more than half a million kina on rehabilitating the Aropa Airport which this Office understands had been and was still a decommissioned airport by Civil Aviation Authority (CAA) at the time of the audit.

Furthermore, payments were made for Aropa airport rehabilitation were wrongly charged to the Law and Justice sector. Every payment raised should be correctly coded and posted to the correct program.

- An amount of K150,000 was paid to a project consultants reportedly for providing consultancy services to the District. In the absence of Consultancy Agreement, this Office is unable to determine the terms, the agreed cost and the period of this engagement. Also, reports, if any, produced by this consultant were not made available to this Office. As such, it is not known what type of work or report was produced by this consultant.

- Instances were noted where payments were split into smaller amounts purposely to avoid the required procurement procedures. These include the payment totaling K393,755 in relation to the Aropa Airport Rehabilitation project which was split into five smaller amounts and paid to the contractor.

(d) Assets Register

An incomplete assets register was furnished to this Office for review. The assets register did not have the full details of assets as required by the *Public Finance (Management) Act*.

As such, assets purchased at a value of K 803, 477 during the period under review could not be verified. These included several motor vehicles, tractor, sawmills and other equipments.

(e) District Project Management Team

Minutes of the DPMT meetings held during the period under review were not furnished to this Office.

In the absence of the minutes, audit could not determine if most of the projects that have been implemented were properly screened and endorsed by DPMT.

(f) Minor Works Contracts

Signed works contracts for various minor works and maintenance works that were under taken during the period under review were not made available to this Office.

(g) Monthly Management Reports

Under Finance Instruction 3C/2008, District Administrators are required to provide monthly management reports on the physical and financial status of the District's DSIP funded projects to their respective JDP&BPC and the ORD. No such monthly management reports were produced by the District.

(h) Bank Reconciliation

Monthly bank reconciliations were not made available for audit review. This Office understands the District did not prepare the monthly bank reconciliations for the period under review.

## **ACKNOWLEDGMENT**

I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work that is reflected in this report. Their efforts have ensured the audit work program is on track and enabled preparing this report in a short period of time.

The co-operation and the assistance rendered by all Heads of Provincial Governments and Local-level Governments and their management of the Business Arms and Subsidiaries, Authorities , Executive Officers of Hospitals and their staff is also acknowledged.

Finally, I would also like to thank the Chairman and the members of the Public Accounts Committee for their continued interest and support for my office.

**PHILIP NAUGA**

*Acting Auditor-General*